

Office of the Inspector General

February 7, 2000

William A. Halter
Deputy Commissioner
of Social Security

Inspector General

The Social Security Administration's Earnings Suspense File Tactical Plan and Efforts to Reduce the File's Growth and Size (A-03-97-31003)

Attached is a copy of the subject final report. The objective of our evaluation was to review the Social Security Administration's (SSA) Earnings Suspense File (ESF) Tactical Plan and report the Agency's progress in reducing the ESF's growth and size. To perform our evaluation, we analyzed SSA's overall Earnings Plan and ESF Tactical Plan. We also developed and analyzed a data base of the "chronic problem employers" with continual large contributions to the ESF.

Successful implementation of the ESF Tactical Plan requires that SSA work with the Immigration and Naturalization Service and the Internal Revenue Service. As such, we intend to distribute the final report to the respective Inspectors General for these agencies. We request that your office communicate the final report to the Commissioners of these agencies to emphasize the importance of prioritizing key initiatives.

If you wish to comment on any further action taken or contemplated on our recommendations, please provide them within 60 days of the date of this memorandum. If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaefer, Acting Assistant Inspector General for Audit, at (410) 965-9700.

James G. Huse, Jr.

Attachment

OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

THE SOCIAL SECURITY
ADMINISTRATION'S EARNINGS
SUSPENSE FILE TACTICAL PLAN
AND EFFORTS TO REDUCE
THE FILE'S GROWTH AND SIZE

February 2000 A-03-97-31003

EVALUATION
REPORT



EXECUTIVE SUMMARY

OBJECTIVE

The objective of this evaluation was to review the Social Security Administration's (SSA) Earnings Suspense File (ESF) Tactical Plan and report the Agency's progress in reducing the ESF's growth and size.

BACKGROUND

Title II of the Social Security Act requires SSA to maintain records of wage amounts that employers pay to individuals. To accomplish this, SSA uses the Social Security number (SSN) to record individuals' wages. SSA provides employers and employees with information and services to aid in recording names with SSNs and reporting earnings to SSA. Wages that cannot be associated with an employee's account can affect the employee's retirement benefit. The ESF also affects SSA's operating costs. SSA estimates that it costs less than 50 cents to post a correctly submitted wage item to an individual's earnings record, but it costs an average of \$300 to correct an item once it is in ESF.

The ESF contains wage items that fail to match SSA name and SSN records. From 1937 through April 1999, this File accumulated about 212 million wage items totaling about \$262 billion (see Appendix A for yearly totals of ESF wage items and dollars). Since 1990, this File has been increasing by an average of 5 million wage items and an average of \$17 billion, annually. Employer and employee errors in reporting wages are the main causes of the File's growth and size.

SSA has been aware of the ESF's continued growth for some time and has several efforts underway or planned to bring it under control. The Agency issued the first draft of the ESF Tactical Plan in 1997 and completed it in March 1999.¹ It includes projects designed to lower the ESF's growth by over 3 million items, annually, and reduce its size by over 36 million items on a one-time basis.² Implementing these projects is hindered by the mid-level priority assigned to ESF projects and lack of support from other Federal agencies. SSA has incorporated the ESF Tactical Plan into its overall Earnings Plan. According to

¹ Before the draft plan in 1997, the Agency had already started some initiatives outlined in the plan.

² The estimated annual and one-time ESF reduction figures are intuitive estimates developed by SSA staff. They are not based on pilot study results or sampling techniques, but staff knowledge of wage reporting practices of the business community. We have reported SSA's estimates to quantify the benefits the Agency expects from the projects. Pilot studies are tests of concepts that SSA reviews and evaluates for possible incorporation into everyday operations.

SSA, the Earnings Plan is complete and will be reviewed and updated regularly. The ESF Tactical Plan's projects generally were assigned mid-level priority by upper management (Deputy Commissioner level) in the Earnings Plan. We did not evaluate SSA's process for setting priorities in this review.

SSA's Earnings Plan also includes expanding the existing Enumeration Verification System a voluntary program that offers employers a mechanism to match employees' names and SSNs with SSA's records. In addition, SSA provides listings to its regional offices of about 7,000 employers to contact them to resolve large numbers of suspended wage items. The purpose is to assist employers in correcting the suspended wages for the past tax year and submitting accurate wage reports in future years.

RESULTS OF REVIEW

Our review of SSA's ESF activities disclosed that despite SSA efforts, suspended wages increase by about 5 million items, annually. There are six major factors that hinder the efforts with the most potential to reduce the ESF's size and growth. As a result, SSA will be unable to significantly reduce the ESF's size and growth for at least 3 years unless it takes additional actions. Specifically, we found the following.

- Higher Agency priorities for automated systems development resources within SSA have resulted in ESF projects receiving a lower priority than other efforts.
- SSA has maintained a data base of all employers submitting wage information. However, the Agency has neither linked such information year-by-year to identify chronic problem employers nor aggressively targeted for corrective action the relatively small number of employers who have been responsible for a disproportionate share of the ESF for several years. Contacts with the 7,000 employers to correct and prevent wage reporting errors, while commendable, do not specifically address the small number of employers who continually add large numbers of wage items to the ESF and/or disregard wage reporting problems.
- Agency officials reported to us that some employers contacted in a recent effort to correct and prevent wage reporting errors were unaware of wage reporting problems.
- The ESF Tactical Plan recognizes that industries hiring transient employees who may not have work authorization from the Immigration and Naturalization Service (INS) may account for a major portion of ESF wage items. The ESF Tactical Plan does not adequately address this issue. According to SSA officials, a project involving INS collaboration to better understand the extent immigration issues may contribute to the growth of the ESF was dropped from the ESF Tactical Plan because of privacy considerations.
- Initiatives with higher benefits require coordination with, and/or assistance from, other Federal agencies. For example, SSA estimates that having the Internal Revenue

Service (IRS) impose civil penalties allowed under existing law against employers who file inaccurate wage reports will reduce ESF growth by 1.5 million wage items, annually. In meetings with SSA officials, the IRS was reluctant to take action.

- SSA acknowledges that existing laws and regulations do not clearly spell out employers' right to require prospective employees to present Social Security cards prior to hiring. In addition, overlapping and/or conflicting employee hiring and reporting requirements among SSA, the IRS, and the INS confuse employers.

CONCLUSIONS AND RECOMMENDATIONS

The ESF is likely to continue to grow unless SSA and other Federal agencies (the IRS and the INS) take aggressive and/or timely action. SSA has implemented a number of edit routines and procedures and is conducting several pilot studies aimed at reducing the growth and size of the ESF. These efforts, however, will result in only minor reductions at best. For example, a pilot study called Extended Operation 30 (see Appendix D) appears reasonably successful and SSA may incorporate it into its editing process and/or search software. This pilot has reduced the ESF by an average of 60,000 items, annually.

SSA also has developed an overall Earnings Plan that includes projects it expects to significantly reduce the ESF. Under SSA's current priorities and timetable, most large ESF projects that depend on SSA resources are not scheduled for implementation until after Year 2000 systems initiatives are completed. Other high payoff projects require help from other Federal agencies, especially the IRS. For example, improving SSA's notification of wage reporting errors to employers and working with the IRS to impose existing penalty provisions for "chronic problem employers" may reduce the ESF by 1 million and 1.5 million wage items, respectively. However, these projects have mid-level priority for SSA's Office of Systems resources, need IRS support, and are not scheduled for implementation until 2001 at the earliest. Accordingly, we recommend that SSA:

- Implement an ESF Tactical Plan that places a high priority on key ESF reduction initiatives to include utilizing the Office of the Inspector General information to refine SSA's data base of chronic problem employers and to key in on those with a multi-year history of submitting large numbers of erroneous wage items.
- Assign a higher priority to work with the IRS to prepare a legislative proposal to clarify employers' right to see the Social Security card before hiring.
- Pursue with the IRS penalties on chronic problem employers.
- Seek sanctioning (penalty) authority if the IRS fails to impose penalties against chronic problem employers.

AGENCY COMMENTS

SSA generally agreed with our recommendations. SSA emphasized the importance of the IRS' cooperation and support to address the ESF problem. In that regard, SSA has formally requested the IRS' help, including the imposition of penalties on problem employers. SSA believes the IRS can apply such penalties more effectively than SSA because the IRS already possesses the authority and enforcement infrastructure.

SSA also provided a limited number of technical comments that we considered and incorporated, where appropriate, in this final report. The full text of SSA's comments is included in Appendix G.

OIG RESPONSE

We are pleased SSA is taking action on our recommendations, and we urge SSA to continue placing a high priority on ESF reduction initiatives. We agree SSA has no sanctioning (penalty) authority in dealing with chronic problem employers, and we are encouraged SSA is actively seeking the IRS' assistance to proactively deal with them. We continue to believe, however, that SSA should seek its own penalty authority in the event the IRS declines to impose penalties against chronic problem employers.

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INTRODUCTION

OBJECTIVE

The objective of this evaluation was to review the Social Security Administration's (SSA) Earnings Suspense File (ESF) Tactical Plan and report the Agency's progress in reducing the ESF's growth and size.

BACKGROUND

Title II of the Social Security Act requires SSA to maintain records of wage amounts that employers pay to individuals. To accomplish this, SSA uses the Social Security number (SSN) to record individuals' wages. SSA provides employers and employees with information and services to aid in recording names with SSNs and reporting earnings to SSA. Wages that cannot be associated with an employee's account can affect the employee's retirement benefits. The ESF also affects SSA's operating costs. SSA estimates that it costs less than 50 cents to post a correctly submitted wage item to an individual's earnings record, but it costs an average of \$300 to correct an item once it is in the ESF.

The Government Performance and Results Act (GPRA) of 1993, Public Law 103-62, 107 Stat. 285, requires Federal agencies to submit to Congress and to the Office of Management and Budget strategic plans not later than September 30, 1998, and every third year thereafter. SSA submitted its current strategic plan, the first required under GPRA, in 1997. The plan outlines the Agency's goals and objectives for the next 5 years. As also required by GPRA, SSA published annual performance plans for Fiscal Years (FY) 1998 and 1999. These performance plans provide more detailed information on how the Agency intends to achieve its goals and the measures that the Agency will use to hold itself accountable.

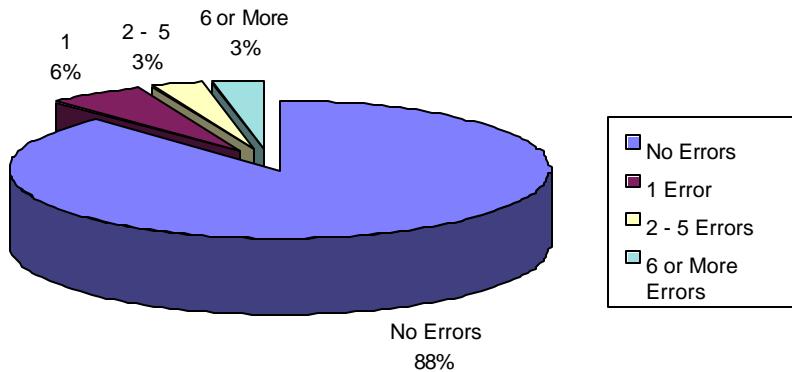
The Agency's strategic plan recognizes that SSA's earnings file is the basis for eligibility and payment decisions in the Old-Age, Survivors and Disability Insurance program (title II) and that having accurate records of earnings is important to overall payment accuracy.

The regulations under section 6011 (b) of the Internal Revenue Code (IRC) set forth both the employer's and employee's duties with respect to securing the employee's SSN and name as shown on the Social Security card when the employee begins working. The employee is required to show the Social Security card to the employer on the day he or she begins to work or as soon as possible afterwards. If the employee does not have the Social Security card available on the day he or she begins employment, the employee is required to advise the employer of his or her SSN and name exactly as it appears on the

Social Security card. No time limit is imposed for the employee to comply with this directive. There is no consequence to the employee if he or she fails to show his or her Social Security card to the employer.

About 6.5 million U.S. employers submit about 216 million W-2s to SSA on annual wage reports (AWR). About 88 percent (5.72 million employers) of those employers submit wage items with no errors. Another 9 percent (585,000 employers) submit wage items with one to five errors. Only about 3 percent of employers (or about 195,000 employers) reported 6 or more errors, and of those, only about 3,000 reported 200 or more errors (see Figure 1).

**Figure 1: PERCENTAGE OF 6.5 MILLION EMPLOYERS
WITH SSN/NAME ERRORS**



About 20 million individual wage records initially cannot be matched to SSA name and SSN records. The Agency uses editing routines to correct and post many of them without the need to contact employers or employees. (See Appendix B for capsule descriptions of major operations/editing routines for wage records). In addition, SSA annually has thousands of contacts with employers to help them report wages correctly. For example, the Agency estimates it received over 200,000 calls from employers in FY 1999. Despite the Agency's efforts, approximately 5 million wage items cannot be posted to individuals' earnings records for any given year.

The ESF

The ESF contains wage items that fail to match SSA name and SSN records. From 1937 through April 1999, this File accumulated about 212 million wage items totaling about \$262 billion (see Appendix A for yearly totals of ESF wage items and dollars). Since 1990, on average this file has increased \$17 billion annually from a low of \$9.6 billion in 1990 to a high of \$27.2 billion in 1997. The total number of suspended wage items has been increasing an average of \$5 million annually over this period from a low of \$3.4 million in

1991 to a high of \$6.4 million of 1997. Employer and employee errors in reporting wage information, such as providing invalid SSNs, are causes of the ESF's growth and size.

According to SSA, the ESF can be viewed in various ways. For example,

- Nine States account for 70 percent of the ESF items. (California alone contributes 31 percent.)
- Three industries—bars and restaurants, services, and agriculture—account for about 47 percent of the items.
- Many employees whose wages are suspended may be aliens who may not have work authorization from the Immigration and Naturalization Service (INS).
- About 55 percent of the ESF items either have no name, no SSN, no name and no SSN, or an unissued SSN. Of the remaining 45 percent, 41 percent show no relationship to the names on SSA's master file of SSNs issued.

SSA's Efforts to Reduce the ESF's Growth and Size

SSA has long recognized its ESF problems and has several efforts underway or planned to reduce the ESF's size and rate of growth. For example, SSA periodically performs an operation referred to as SWEEP. This operation uses the latest system improvements and validation rules to remove items from the ESF and reinstate them to wage earner records (see Appendix B). The Agency issued the first draft of its ESF Tactical Plan to address the problem in 1997 and completed it in March 1999. The Tactical Plan includes 10 projects designed to lower the ESF's annual growth by about 3.4 million wage items and 2 projects designed to reduce the ESF's size by another 36.5 million wage items on a one-time basis. The implementation of these projects depends on their priority level for support from SSA's Office of Systems (OS) and/or from other Federal organizations—the Internal Revenue Service (IRS), the INS, and the Office of Child Support Enforcement (OCSE). Because of higher Agency priorities for internal resources and the uncertainty of cooperation from the other Federal agencies, SSA expects to implement the projects that will reduce the ESF's growth and size by the largest proportions in Calendar Year (CY) 2000 or later.

Table 1 lists the 10 projects designed to reduce the ESF's rate of growth, and Table 2 lists the 2 projects designed to reduce the ESF's size. These tables show their status, SSA's level of dependence on its OS and/or other Federal agencies, and SSA's rough estimates of annual reductions to the ESF. Descriptions of these projects and their status appear in Appendices C and D.

Table 1: 10 Projects Designed to Lower the ESF's Rate of Growth

#	Project Description	Project Status (Start) (End)		SSA's Level of Dependence on Its Internal OS	SSA's Level of Dependence on IRS, INS, or OCSE	SSA's Estimated Annual Reductions to the ESF
1.	Strengthen Name/SSN Validation Software Used for Determining Wage Earner Identity	Initiated	2/99	High	None	60,000 ⁽¹⁾
2.	Request IRS Establish Audit Policy for "Chronic Problem Employers"	Initiated	6/99	Low	High (IRS Support)	100,000
3	Provide Error Feedback to Employers on New Hire Reports	Initiated	4/00	Medium	Collaboration with OCSE	100,000
4.	Provide Overnight Electronic Name/SSN Verification Services to Employers	Initiated	9/00	High	None	200,000
5.	Establish Effective Format for Customer Name	Initiated	½	High	High (IRS Support)	No Estimate
6.	Improve Communication of Report Errors to Employers/Submitters and Employees	Initiated	12/02	High	Medium (IRS Support)	1,000,000
7.	Establish Employers Right to See Social Security Card	Initiated	1/03	None	High (IRS Support)	150,000
8.	Conduct Outreach Efforts with "Problem" Industries and States	Initiated	TBD ⁽²⁾	Low	Collaboration with the INS	200,000
9.	Establish and Implement IRS Penalty Provision for "Chronic Problem Employers"	TBD ⁽²⁾	TBD ⁽²⁾	Medium	High (IRS Support)	1,500,000
10.	Revise SSA's Earnings System to Immediately Accept and Post All Valid W-2s Received from Employers	TBD ⁽²⁾	TBD ⁽²⁾	High	None	50,000
	Total					3,360,000

(1) Through September 1999, this project actually yielded about 260,000 wage items removed from the ESF. This project was completed in February 1999.

(2) TBD - To Be Determined.

Table 2: Two Projects Designed to Reduce the ESF's Size

#	Project Description	Project Status (Start) (End)		SSA's Level of Dependence on Its Internal OS	SSA's Level of Dependence on IRS	SSA's Estimated One-Time Reductions to the ESF
1.	Establish Annual Archival Process	Initiated	TBD ⁽¹⁾	High – Systems Design	None	36,000,000
2.	Improve the ESF Item Re-examination Process	Initiated Pilot Studies listed in Appendix D	Various End Dates	Medium	None	550,000
Total						36,550,000

(1) TBD - To Be Determined

Pilot Studies

As part of its ESF Tactical Plan, the Agency intends to improve the ESF re-examination process. The Agency plans to perform 6 pilot studies in efforts to reduce the ESF by 550,000 wage items on a one-time basis. Three of these six pilots are scheduled for completion in CY 1999, one in CY 2000, and two are not scheduled. These pilot studies are expected to have only a minor impact on the ESF. (See Appendix D for capsule summaries and the associated status of these pilot studies.)

For example, one pilot study known as Operation 30 Extended, builds on an established back-end editing routine called Operation 30 (described in Appendix B). It assumes that the SSN is correct but the reported name is wrong and offers a technician several names to research for a possible match. This pilot study has reduced the ESF an average of 60,000 wage items, annually, for the 3 years it reviewed. Based on its results, the Operation 30 Extended pilot appears successful, and SSA may incorporate it into its editing process and/or search software. Another pilot, referred to as Multiple Selects, would employ a similar methodology based on the assumption of a correct name and several potential SSN matches. This project's start and end dates are to be determined.

Enumeration Verification System

SSA's Earnings Plan also includes expanding the existing Enumeration Verification System (EVS). EVS is a voluntary program that offers employers a mechanism to match employee names and SSNs with SSA's records. By doing so, employers can ensure that employees have provided accurate information.

Employer Telephone Service

SSA also has increased its toll-free telephone service for employers to verify employees' names and SSNs. In FY 1997, the Agency handled 5,000 such calls; in FY 1998, 40,000 calls; and in FY 1999, 215,000 calls.

Contacts with Employers

In addition, SSA has directed its regional offices to contact all employers responsible for 100 or more suspended wage items (approximately 7,000 employers), beginning with Tax Year (TY) 1996. The purpose is to assist the employers in correcting the suspended wage items for the past TY and submitting accurate wage reports in subsequent years.

SCOPE AND METHODOLOGY

We reviewed SSA's plans to (1) prevent wage items from reaching the ESF and (2) reduce the ESF's size. Our review focused on the progress and implementation of ESF prevention and reduction activities.

To achieve our objective, we made inquiries to SSA staff to identify ESF prevention and reduction activities completed, ongoing, and planned. We reviewed the Earnings Plan and ESF Tactical Plan (dated October 27, 1998) and interviewed SSA officials about the plans and time schedules for the related ESF prevention and reduction projects. To determine the effects of those "chronic problem employers" with continually large contributions to the ESF, we analyzed SSA listings of employers that had 200 or more wage items in the ESF in TYs 1993 through 1996.³ We developed a data base to identify those employers listed in all 4 years. We also analyzed the Agency's ESF for TYs 1995 and 1996 to determine the related dollar impacts on the ESF associated with those employers.⁴ We performed our work at SSA Headquarters and the Office of Central Operations in Baltimore, Maryland; the Wilkes-Barre Data Operations Center in Wilkes-Barre, Pennsylvania; and the Office of the Inspector General (OIG) Office of Audit in Philadelphia, Pennsylvania. We conducted the field work from September 1997 through January 1999. We performed this evaluation in accordance with the Quality Standards for Inspections issued by the President's Council on Integrity and Efficiency.

³ SSA has no official definition of what constitutes a problem employer. The Office of Central Operations used a threshold of 200 or more suspended wage items for TYs 1993 through 1995 and 100 or more suspended wage items for TY 1996. For consistency in analysis, we used the threshold of 200 for each year.

⁴ We were able to obtain information on the dollar value of suspended wage items for problem employers for only these 2 years.

RESULTS OF REVIEW

Despite efforts by SSA to reduce the ESF's growth and size, it has continued to grow an average of 5 million wage items and an average of \$17 billion, annually, over the last several years. SSA has additional initiatives planned; however, several factors are hindering the efforts expected to have the greatest impact on the ESF's size and growth.

- Higher Agency priorities for automated systems development resources within SSA have resulted in ESF projects receiving a lower priority than other efforts.
- SSA has maintained a data base of all employers submitting wage information. However, the Agency has neither linked such information year-by-year to identify chronic problem employers nor aggressively targeted for corrective action the relatively small number of employers who have been responsible for a disproportionate share of the ESF for several years. Contacts with the 7,000 employers to correct and prevent wage reporting errors, while commendable, do not specifically address the small number of employers who continually add large numbers of wage items to the ESF and/or disregard wage reporting problems.
- Agency officials reported to us that some employers contacted in a recent effort to correct and prevent wage reporting errors were unaware of wage reporting problems.
- The ESF Tactical Plan recognizes that industries hiring transient employees who may not have work authorization from the INS may account for a major portion of ESF wage items. The ESF Tactical Plan does not adequately address this issue. According to SSA officials, a project involving INS collaboration to better understand the extent immigration issues may contribute to the growth of the ESF was dropped from the ESF Tactical Plan because of privacy considerations.
- Initiatives with higher benefits require coordination with, and/or assistance from, other Federal agencies. For example, SSA estimates that having the IRS impose civil penalties allowed under existing law against employers who file inaccurate wage reports will reduce ESF growth by 1.5 million wage items, annually. However at meetings with SSA officials, the IRS was reluctant to take action.
- SSA acknowledges that existing laws and regulations do not clearly spell out employers' right to require prospective employees to present Social Security cards prior to hiring. In addition, overlapping and/or conflicting employee hiring and reporting requirements among the SSA, the IRS, and the INS confuse employers.

As a consequence, there will be little significant reduction to the ESF's size and growth for at least the next 3 years without additional actions by SSA and other Federal agencies (the IRS and the INS).

ESTABLISH A HIGH PRIORITY FOR ESF PROJECTS

SSA has assigned priority levels (tiers) to the projects listed in its Earnings Plan for the entire earnings area and the ESF Tactical Plan because of limited OS resources. Mandatory projects, such as preparation for the Year 2000 and EVS, have been assigned tier 1 priority. The ESF projects, except for EVS, have been assigned tier 2 priority. Because of their mid-level priority for internal support, the projects that SSA estimates will reduce the ESF the most are not scheduled for implementation until after CY 2000.

As shown in Table 1, SSA expects to complete 4 ESF projects by September 2000 that are projected to reduce the ESF's growth by about 460,000 wage items annually—about 9 percent of the File's annual growth. The 6 remaining projects that SSA expects to have the greatest impact on the ESF's growth—2.9 million items or about 86 percent—are projected for completion in 2002 or later or are "unscheduled" (project completion dates are to be determined). All require support from SSA's OS and/or the IRS.

In addition, the project designed to reduce the ESF's size by 36 million wage items on a one-time basis (see Table 2) is not yet scheduled for implementation because of its mid-level priority.

TARGETING CHRONIC PROBLEM EMPLOYERS

SSA has maintained a data base of all employers submitting wage information. However, the Agency has not linked such information year-by-year to identify chronic problem employers. The relatively small number of employers responsible for a disproportionate share of the ESF for several years has not been aggressively targeted for corrective action by SSA.

SSA intends to identify chronic problem employers and monitor the quality of their future submissions, and, if improvements are not made, SSA will recommend that the IRS assess penalties. SSA intends to use a graduated approach that will culminate in a final notice representing a penalty assessment. SSA also intends to work with the IRS to establish the appropriate criteria to implement penalties for chronic problem employers.

Table 3: Effect of Chronic Problem Employers on the ESF (1993-1996)

Year	Number of Employers	Number of Suspended Wage Items	Percent of Suspended Items	Suspended Wages	Percent of Suspended Wages
1993	2,182	1,292,271	26	N/A	N/A
1994	2,499	1,432,160	28	N/A	N/A
1995	2,796	1,651,520	29	\$4,017,519,423	21
1996	3,029	1,810,028	29	\$4,950,906,695	21

The SSA data base contains the information necessary for the Agency to specifically target the employers who have been responsible for large numbers of suspended wage items over the years. To date, SSA has not linked the individual years together to identify the chronic problem employers. Chronic problem employers are responsible for 200 or more suspended wage items in a given year. SSA's contacts with employers with more than 100 suspended wage items in a given year essentially have treated all such employers equally.

We analyzed SSA data and identified employers who have represented the worst problems for an extended period. From SSA's data, we identified approximately 1,000 employers from Table 3 that had at least 200 suspended wage items in each of the 4 consecutive years. These employers were responsible for over 3 million suspended wage items during the period and about \$4.4 billion in suspended wages in 1995 and 1996. We have provided the information on these employers to SSA to assist the Agency in its efforts to deal with chronic problem employers. However, in light of the impact these employers have on the ESF and the likelihood that many of them may be fully aware they are submitting erroneous wage reports, we believe that SSA's planned graduated approach should be modified. SSA needs to make these employers aware quickly and directly that their volume of errors over a number of years is unacceptable.

EMPLOYERS UNAWARE OF THEIR WAGE REPORTING PROBLEMS

SSA contacts with the 7,000 employers who submitted AWRs with at least 100 errors revealed that some of those employers were unaware of their wage reporting problems because they were not previously notified.⁵ SSA generally does not notify employers of all wage reporting errors. Instead, it relies on notices sent to employees for correcting name and/or SSN errors. Although the Agency's ESF Tactical Plan includes a project that will consider directing such correspondence to the employer rather than the employee, this project is not scheduled until CY 2002 because of higher priorities.

⁵ These employers were unaware of their wage reporting errors because the errors were less than 10 percent of the total W-2s reported. SSA has addressed part of this situation by adjusting the criteria used to return to employers magnetic media files with name/SSN errors. SSA plans to address the remainder by adjusting its threshold for sending "Educational Correspondence" to employers explaining mistakes so they can avoid errors in future AWR submissions.

When wage items reach the ESF, SSA's system generates letters known as Decentralized Correspondence (DECOR), which are mailed to employees in an attempt to resolve SSN and/or name discrepancies. They are mailed to the employer only if SSA has no address for the employee. SSA reviews responses in efforts to remove items from the ESF for posting to the individual's Master Earnings File record. DECOR annually generates and mails about 6.5 million letters.

SSA receives about a 20-percent response rate to these letters and is able to use the information to reinstate suspended wages in about 40 percent of those cases (i.e., about 8 percent of the overall DECOR mailing). Another 20 percent are returned to SSA unopened as undeliverable mail. For the remaining 60 percent, there is no recorded response. SSA does not calculate the number of employees who respond by telephone calls or visits to SSA field offices.

The Agency is aware of shortcomings with the current process. According to the Agency's ESF Tactical Plan:

SSA's current AWR name/SSN notices are not communicated to employers/submitters in a timely, efficient, and effective manner. The current process is slow, does not take full advantage of technology such as the use of Fax, E-mail, does not adequately take into account differences in error notice requirements among single and multiple report filers of magnetic media and paper filers, does not provide submitters/employers with a single complete list of all name/SSN errors found, and does not clearly and thoroughly communicate information to employers/submitters or employees. This results in unnecessary accretions to the ESF. . . .

SSA officials we interviewed believe that it would be more effective to send some type of error notification letter first to employers rather than to employees. SSA expects to implement such a project in CY 2002, since the Agency has several higher priorities.

ADDRESSING ILLEGAL ALIENS IN SSA'S ESF TACTICAL PLAN

SSA officials informed us that they suspect illegal aliens account for a major portion of suspended wage items, but the ESF Tactical Plan does not adequately address the problem. Further, SSA dropped a planned project with the INS designed to deal with the issue from the ESF Tactical Plan because of privacy considerations.

About 55 percent of ESF items have no name, no SSN, no name and no SSN, or an invalid SSN; another 18 percent have valid numbers but the names cannot be matched to the names on SSA's master file. According to SSA officials, illegal aliens may be major contributors to this problem. SSA suspects that employers in certain high turnover industries (bars and restaurants, services, and agriculture) compound the problem because they may knowingly hire illegal aliens with fraudulent identification and are able to do so because there are no penalties imposed for their actions. Consequently, those

employers who knowingly accept fraudulent documentation are free to conduct business as usual without regard to the disruption and harm caused to SSA's customers and to unknowing individuals whose identities are falsely used.

Inability to Share Information with INS

The INS has oversight responsibility for illegal aliens. SSA has the capability to provide the INS with valuable leads to identify employers who continually hire illegal aliens. The Agency included a project to collaborate with the INS in its December 1997 version of the ESF Tactical Plan. For this project, SSA intended to develop a better understanding of the extent that immigration issues may contribute to name/SSN mismatches and thus the rate of growth of the ESF. The initiative was to involve SSA working with the INS to formulate and conduct a limited review of employers who (1) employ large numbers of immigrants and (2) experience high name/SSN error rates on their AWRs. SSA planned to use the results of this effort to revise, if necessary, current SSA policies, procedures, and systems as well as IRS regulations relating to AWR requirements. Because of privacy and disclosure limitations, the Agency determined it could not share such information with the INS, according to SSA officials. SSA subsequently dropped the project from later versions of the ESF Tactical Plan.

ASSISTANCE FROM OTHER FEDERAL AGENCIES CRITICAL FOR SUCCESS

Several initiatives to control the ESF are dependent on support from other Federal agencies. The single most important agency is the IRS. SSA estimates that the 5 projects dependent on the IRS would reduce the ESF's annual growth by about 2.7 million items. Just as importantly, SSA believes these agencies would provide a means to help deal with chronic problem employers, improve SSA's and employers' processing of wage items, and help employers correctly report employees' names and SSNs. To obtain IRS support, the Commissioner of SSA sent a letter dated November 9, 1998, to the Commissioner of the IRS. He requested that (1) SSA and the IRS work together to develop employer incentives for improving employer wage reporting, and (2) senior representatives from both agencies meet to discuss how to proceed. The employer incentives would include the following.

- The IRS strictly enforce the existing penalty provision of \$50 per error contained in current Form W-2 instructions for submitting inaccurate name/SSN combinations.
- Revise IRS regulations to give employers clear guidance to examine and copy Social Security cards during the hiring process.
- Require employers to withhold Federal income taxes at the maximum rate when the employee cannot provide a Social Security card at the time the form W-4 is prepared.

- Establish “due diligence” criteria to clarify what the employer is expected to do and what documents the employee should make available to employers to enable more accurate name/SSN reporting.

As a result of this letter, SSA and IRS senior representatives began meeting in February 1999 to develop employer incentives for improving wage reporting. We commend SSA for this proactive initiative to address important issues regarding employer and employee responsibilities. However, as of July 1999, SSA had not received a formal response to this letter from the IRS. We are concerned that the IRS may be reluctant to impose monetary penalties on employers for wage reporting errors, which would result in a significant shortfall in projected ESF reduction efforts. If the IRS does not agree to cooperate, SSA will need to consider seeking legislation that will allow the Agency to impose penalties on chronic problem employers.

Additionally, two other projects require collaboration with other Federal agencies. Combined, they are expected to reduce the ESF by 300,000 wage items, annually.

- **OCSE** SSA has been working with the OCSE to provide feedback to employers when new hires’ data fail name/SSN validation. This will allow employers to correct name/SSN information before submitting their AWR to SSA. According to the ESF Tactical Plan, this project is scheduled for completion in April 2000. This project is expected to reduce the ESF by about 100,000 wage items annually.
- **INS** SSA also has been collaborating with the INS since December 1998 to develop outreach efforts with problem industries and States to target, train, educate and inform them about AWR filing requirements. This project’s completion date is to be determined. SSA estimates annual reduction to the ESF at about 200,000 wage items.

LEGISLATIVE AND REGULATORY CLARITY NEEDED

Existing laws and regulations do not clearly spell out employers’ right to require prospective employees to present their Social Security cards prior to hiring, according to SSA. In addition, overlapping and/or conflicting employee hiring and reporting requirements among SSA, the IRS, and the INS are confusing to employers.

Beginning in late 1997, the Agency contacted about 7,000 employers who had over 100 wage items in the ESF for TY 1996. The purpose was to assist the employers in correcting the suspended wage items for TY 1996 and submitting accurate wage reports in subsequent years. These contacts revealed that a lack of guidance hindered employer reporting of employee information, according to SSA officials. Employers are unsure of their right to examine prospective employees’ Social Security cards at the time of hire. Section 6011 (b) of the Internal Revenue Code (IRC) establishes both the employer’s and employee’s duties with respect to securing the employee’s SSN and name as shown on the Social Security card after the employee is hired. The IRC does not spell out an

employer's right to see prospective employees' Social Security cards before they are hired. Prospective employees who intentionally provide incorrect information to employers have little concern about being held accountable.

As a result of this ambiguous IRC provision, employees are hired even though their identity information may be incorrect and/or false. If the employee works even 1 day, earnings will probably end up in the ESF. The employee's error is compounded in instances of unintentional errors—his or her account may not be properly credited and could result in the receipt of less Social Security benefits when eligible.

As part of its ESF Tactical Plan, SSA intends to work with the IRS to establish a clear and effective IRS regulation that will provide employers the legal right and requirement to view the Social Security card of prospective employees. Such a regulation does not exist now. SSA foresees this project's implementation by January 2003 via IRS publications, if the IRS cooperates.

In addition, employers are "confused" with reporting requirements that they must follow and want clear cohesive guidance. There is currently no comprehensive guide to employee hiring and reporting requirements for employers to meet SSA, IRS, INS and OCSE reporting requirements. As noted, the Agency intends to work with the INS to help "problem" industries and States to meet AWR filing requirements when the project is completed (the project's completion date has to be determined). However, there are no plans to provide employers with what they need, a comprehensive Federal reporting requirements guide.

CONCLUSIONS AND RECOMMENDATIONS

Despite SSA's ongoing efforts, suspended earnings continue to be significant. The Agency has developed an ESF Tactical Plan to reduce the rate of growth and size of the ESF. However, some of the Agency's internal efforts do not go far enough. For example, SSA plans to develop "chronic problem employer" management information from its data base. SSA has information in this data base to specifically notify employers of their continual reporting problems since 1993, but it has not linked the available information across time to specifically identify and target them for corrective action.

Further, the projects SSA expects to reduce the ESF's growth and size by the largest proportion generally will not be completed until after the Year 2000 because of their mid-level priority and/or dependence on either the IRS or the INS for implementation. For example, having the IRS enforce its existing penalty provisions and improving SSA's wage reporting error notification to employers are expected to reduce the ESF by roughly 1.5 million and 1.0 million items, respectively. However, the projects are not scheduled for implementation until Year 2001 and after Year 2002. In contrast, a pilot project that SSA may incorporate into its editing process and/or search software may reduce the ESF by about 60,000 items, annually. While we agree that such projects are valuable and should be pursued, SSA needs to ensure that projects with high payoff receive the needed level of attention.

Thus, the ESF is likely to grow unless SSA takes additional steps. Accordingly, we recommend that SSA:

1. Implement an ESF Tactical Plan that places a high priority on key ESF reduction initiatives to include utilizing the OIG information to refine SSA's data base of chronic problem employers and to key in on those with a multi-year history of submitting large numbers of erroneous wage items.
2. Assign a higher priority to work with the IRS to prepare a legislative proposal to clarify employers' right to see the Social Security card before hiring.
3. Pursue with the IRS penalties on chronic problem employers.
4. Seek sanctioning (penalty) authority if the IRS fails to impose penalties against chronic problem employers.

AGENCY COMMENTS

SSA generally agreed with our recommendations. The Agency pointed out that initiatives to reduce the size and growth of the ESF continue to receive significant attention. To better target problem employers, SSA is developing new software that will focus on earnings suspense issues. It will establish a new earnings suspense management information data base that will permit a variety of analyses of the ESF.

SSA emphasized the importance of the IRS' cooperation and support to address the ESF problem. The Commissioner of SSA has written to the Commissioner of the IRS requesting that agency's help and urging the IRS to consider imposing penalties on problem employers. The IRS reportedly has been reluctant to impose such penalties because of the complexity and difficulty in determining whether an employer has exercised appropriate diligence in obtaining the necessary information from employees. To address the IRS' concerns, SSA is providing the IRS with the additional information on problem employers developed by the OIG. However, SSA believes the IRS is the best agency to impose penalties because the IRS has the legal authority and the enforcement infrastructure to impose penalties.

SSA also provided a limited number of technical comments that we considered and incorporated, where appropriate, in this final report. The full text of SSA's comments is included in Appendix G.

OIG RESPONSE

We are pleased SSA is taking action on our recommendations, and we urge SSA to continue placing a high priority on ESF reduction initiatives. We agree SSA has no sanctioning (penalty) authority in dealing with chronic problem employers, and we are encouraged SSA is actively seeking the IRS' assistance to proactively deal with them. We continue to believe, however, that SSA should seek its own penalty authority in the event the IRS declines to impose penalties against chronic problem employers.

APPENDICES

Earnings Suspense File as of April 1999

The Earnings Suspense File (ESF) contains about 212 million wage items totaling about \$261.7 billion. The following is a schedule of the ESF as of April 1999. It contains yearly wage totals, yearly wage items, and yearly percentages of total wage items from origination in 1937 through 1997.

Tax Year	Total Suspended Wages	Total Suspended Wage Items	Yearly Percentage of Total Wage Items
1937	\$320,262,274.53	4,778,940	2.25
1938	152,537,394.09	2,359,612	1.11
1939	128,805,711.59	1,785,747	0.84
1940	102,718,893.15	1,350,724	0.64
1941	163,504,575.54	2,004,436	0.94
1942	236,376,888.28	2,559,775	1.20
1943	235,279,258.43	2,419,104	1.14
1944	180,154,904.09	1,896,064	0.89
1945	195,580,542.72	2,025,183	0.95
1946	218,240,551.29	2,130,759	1.00
1947	225,163,667.96	1,968,480	0.93
1948	241,088,626.81	2,004,324	0.94
1949	187,094,000.89	1,560,799	0.73
1950	212,736,930.09	1,694,948	0.80
1951	332,908,061.56	2,470,063	1.16
1952	314,893,201.15	2,359,979	1.11
1953	277,631,780.62	2,042,341	0.96
1954	256,797,868.75	1,730,763	0.81
1955	419,605,866.55	2,363,655	1.11
1956	441,524,338.01	2,514,614	1.18
1957	482,761,687.35	2,541,227	1.20

Tax Year	Total Suspended Wages	Total Suspended Wage Items	Yearly Percentage of Total Wage Items
1958	427,555,617.18	2,234,207	1.05
1959	455,758,707.08	2,398,789	1.13
1960	431,409,058.85	2,265,999	1.07
1961	390,390,928.35	2,044,208	0.96
1962	421,432,432.40	2,189,832	1.03
1963	424,801,107.10	2,148,973	1.01
1964	480,747,431.94	2,334,723	1.10
1965	573,979,237.99	2,651,569	1.25
1966	774,178,040.04	3,348,836	1.58
1967	974,528,828.79	3,583,886	1.69
1968	1,103,892,099.35	3,909,129	1.84
1969	1,297,758,982.08	4,239,193	2.00
1970	1,359,520,273.22	4,049,850	1.91
1971	1,372,017,580.89	3,872,862	1.82
1972	1,774,339,701.04	4,820,775	2.27
1973	2,168,454,625.25	5,715,883	2.69
1974	2,203,565,451.06	5,302,650	2.50
1975	1,970,847,992.75	4,139,707	1.95
1976	2,266,824,115.64	4,402,611	2.07
1977	3,034,524,252.61	5,233,496	2.46
1978	3,665,863,557.27	4,284,587	2.02
1979	5,271,238,736.22	4,944,090	2.33

Tax Year	Total Suspended Wages	Total Suspended Wage Items	Yearly Percentage of Total Wage Items
1980	6,330,267,415.24	4,777,759	2.25
1981	7,292,852,751.74	4,716,415	2.22
1982	7,006,829,608.91	4,095,225	1.93
1983	7,511,270,634.05	4,066,509	1.91
1984	8,678,633,768.75	4,552,750	2.14
1985	10,691,907,690.14	5,363,498	2.52
1986	11,986,566,948.50	5,676,149	2.67
1987	12,682,969,027.17	5,323,144	2.51
1988	10,433,695,248.74	4,800,574	2.26
1989	7,713,834,728.05	3,183,660	1.50
1990	9,612,573,261.27	3,558,250	1.67
1991	10,222,837,103.11	3,424,739	1.61
1992	11,953,463,515.44	4,021,390	1.89
1993	15,377,562,851.15	4,874,333	2.29
1994	16,881,032,003.71	5,176,052	2.44
1995	19,177,493,326.19	5,572,187	2.62
1996	22,867,379,736.53	6,218,526	2.93
1997	27,187,312,669.84	6,395,702	3.01
TOTAL	\$261,777,778,069.08	212,474,254	

Note: These figures are as of April 1999. Figures for Tax Year 1998 were not available at the time of our review.

Major Operations/Editing Routines for Wage Records

The Social Security Administration (SSA) uses editing routines to properly record wages to the individual's Master Earnings File (MEF) record, to prevent wage items from ending up in the Earnings Suspense File (ESF) and to reinstate wage items from the ESF to the MEF. The Agency uses both manual and electronic validation routines that manipulate wage earners' Social Security numbers (SSN) and/or names in efforts to find record matches. When matches are questionable, researchers use additional wage earners' records to identify possible matches. Some annual routines review the current reporting year and specific tax years. Other routines use the latest system improvements and validation rules to periodically review the entire ESF dating back to 1937. These routines find correct matches from incorrectly reported SSNs or names (or both) when they meet SSA's validation rules. Some of the major editing routines are listed below.

Decentralized Correspondence

When wage items reach the ESF, the system generates letters, known as Decentralized Correspondence (DECOR). The main purpose of DECOR is to query individuals to resolve SSN and/or name discrepancies. These letters are mailed to employees. They are mailed to the employer only if there are no addresses for those employees. SSA reviews responses in efforts to remove items from the ESF for posting to the individual's MEF record. DECOR annually generates and mails about 6.5 million letters.

SSA receives about a 20-percent response rate to these letters and is able to use the information to reinstate suspended wages in about 40 percent of those cases (i.e., about 8 percent of the overall DECOR mailing). Another 20 percent are returned to the Wilkes-Barre Data Operations Center (WBDOC) unopened as undeliverable mail. For the remaining 60-percent, there is no recorded response although some may result in telephone calls or visits to SSA field offices.

Overnight Validation

The Overnight Validation operation captures the current reporting year's paper W-2 processing errors. Any processed name/SSN data rejections go through the Single Selects operation described below. Those rejections not accepted by Single Selects are highlighted in a return electronic transmission from the National Computer Center to the WBDOC. WBDOC keyers look at the image of the original W-2 and re-key any items not

keyed correctly initially. They also key the employee address to all rejected items, whether corrected or not, for later DECOR activities and another operation called FERRET.

Single Selects Operation

The Office of Systems performs a name/SSN validation process throughout the current Annual Wage Report year known as Single Selects. This operation assumes that the reported name is correct and that the SSN is wrong. Many errors are caused when the name is correct but there is a transposition error in the SSN. The operation creates "ghost" records from combinations of numbers in the reported SSN with the reported name. The system then screens these records against their related Numident records. (The Numident record is a record of the wage earner's identity information provided on his or her application for a SSN.) If one and only one Numident matches the reported name, the item is reinstated. This operation prevents about 2.2 million wage items yearly from going to Suspense.

FERRET

FERRET is a periodic electronic operation that uses SSA and Internal Revenue Service (IRS) records to make reinstatements from the ESF to wage earners' records. This process uses the FERRET file that the WBDOC creates from the nonresponder DECOR file. The FERRET file is processed against IRS tax returns for matches to address data. Names or parts of names are then carried from the IRS file to create possible reinstatements. These possible matches are then screened using SSA's validation rules and actual reinstatements occur. SSA ran the latest FERRET operation in 1998 for Tax Year (TY) 1995, and removed over 90,000 items totaling over \$372 million from the ESF.

SWEEP

SWEEP is an electronic operation that periodically uses the latest system enhancements and validation rules to remove items from the ESF and reinstate them to wage earners' MEF records. In January 1997, SSA's Systems completed a SWEEP covering TYs 1937 through 1994. This SWEEP re-examined about 107.5 million ESF items and made reinstatements to over 1.6 million items totaling over \$4.9 billion. Subsequent SWEEP Operations for TYs 1995 and 1996 reinstated approximately 137,000 more suspended wage items totaling about \$800 million to wage earners' MEF records.

Systems has also recently completed the SWEEP operation using "NAME SCORING 1ST" software from TY 1997 back to TY 1937. Approximately 240,000 items have been reinstated through this latest SWEEP operation.

Operation 30

WBDOC annually performs a human intervention ESF reduction routine known as Operation 30. It identifies open ESF items with valid SSNs and connects SSA's Numident records with the ESF item. It assumes that the SSN is correct and the name is wrong. Technical staff perform a sight comparison operation to review reported data against on-line SSA records and make judgments to accept wage items for MEF posting (category 2) or reject the data to the ESF (category 1). They follow SSA approved policy and use extended name rules, which are broader than those that can be programmed into a computer.

This process corrects errors caused by the use of nicknames, Americanization of names, run-on names, garbling of names and recognizable errors acceptable for reinstatement to the MEF. It has been in existence since about 1937. Since then, it has continually improved with technology. Now, technical staff can review ESF items against limited versions of up to five Numident records on-line instead of reviewing paper records.

Making Access to the ESF Easier to Identify Wage Earner Records

SSA has recently increased its access to the ESF. The Agency has completed testing commercial off-the-shelf software that increases its access to the ESF to identify wage earners' records. In February 1999, this software was implemented Agencywide. It provides reviewers with wage earner name access to the ESF that helps them to more efficiently search and identify wage earners' records in the ESF for postings to their accounts. Prior to using this software, the reviewer needed to know the Employer Identification Number and TY to search for wage earners' names in the ESF.

Adding Name Validation Rules to Identify More Wage Earner Records

SSA's creation and recent use of four additional validation routines should improve the posting of female, minority and ethnic group wage records. In October 1997, the Agency began using four additional validation rules from its own developed software. These rules identify more incoming wage earner records and find more wage earners' records already in the ESF. In other words, the rules improve the posting of legitimate earnings details to wage earners' MEF records and reduce the number of items being added to the ESF. For example, the rules accept a wage earner's usage of mother's maiden name; father's surname; consider spacing in names; and usage of name reversals (see Appendix F for summaries of these validation rules).

Summary of Projects Designed to Reduce the Earnings Suspense File's Rate of Growth

Initiative I

Initiative I describes 10 projects designed to reduce the Earnings Suspense File's (ESF) rate of growth. Below are summaries of these 10 projects, project status, the Social Security Administration's (SSA) level of dependence on the Internal Revenue Service (IRS) and/or the Immigration and Naturalization Service (INS) and/or the Office of Child Support Enforcement (OCSE), and SSA's estimated annual reductions to the ESF.

1. Strengthen Name/Social Security Number (SSN) Validation Software Used for Determining Customer Identity

The purpose of this project is to develop, evaluate, fine tune, and use software tools that will yield a greater rate of name/SSN validation matches. This is intended to result in more Master Earnings File (MEF) record postings and fewer ESF additions. In October 1997, the Agency began using four additional validation rules from its own developed software. For example, the rules accept wage earner's usage of mother's maiden name and father's surname; consider spacing in names; and accept usage of name reversals. The Agency also has completed testing commercial off-the-shelf software that increases its access to the ESF to identify wage earners. In February 1999, this software was implemented Agencywide. It provides the reviewer with name access to the ESF that helps identify wage earner records. Prior to this improvement, the reviewer needed to know the Employer Identification Number and tax year (TY) to search for a wage earner's name in the ESF.

Project Status

Project Start: initiated

Project End Date: 2/99 (this project is completed)

SSA's Annual Estimated Impact

60,000 wage items prevented and/or removed (reductions) from the ESF

2. Request IRS Establish Audit Policy for Employers Who Repeatedly Submit Erroneous Reports

This project's intent is to encourage more accurate wage reporting by referring to the IRS those employers who continually submit erroneous reports, for the IRS' consideration and inclusion in its audit activities. The agencies will jointly define the circumstances for audits, the basis for applying penalties, the information needed from SSA to support any audit, and the data flows and procedures to be followed.

Project Status

Project Start: initiated

Project End Date: 6/99 (depends on a high level of support from the IRS)¹

SSA's Annual Estimated Impact

100,000 wage item reductions from the ESF

3. Provide Error Feedback to Employers on New Hire Reports

This project's intent is to send error notices to employers who submit New Hire Reports to OCSE that contain name/SSN errors.

Project Status

Project Start: initiated

Project End Date: 4/00

SSA's Annual Estimated Impact

100,000 wage item reductions from the ESF

4. Provide Overnight Electronic Name/SSN Verification Services to Employers

The purpose of this project is to improve the Enumeration Verification System (EVS) services to provide employers with an overnight toll-free telephone number to use the electronic system to verify employee names/SSNs against SSA's Numident file of issued SSNs. Those employers who have personal computers and modems would use EVS to verify employee names/SSNs before they submit their Annual Wage Reports (AWR) to SSA. The plan includes communication and marketing efforts to promote employer usage. SSA believes this system will be attractive to employers because: (1) it will improve the quality of their reports for compliance with IRS wage and tax reporting requirements and (2)

¹ As of July 1999, the Agency had not received a formal response for support from the IRS. Consequently, the project end date had to be delayed.

its usage will also help prevent their AWR from being returned by SSA. SSA also believes that EVS would be in high demand if employers were subject to penalties for AWR submittals with large numbers of name/SSN mismatches.

The current EVS services are limited. Employers can only submit a request to SSA on magnetic media, paper, or by telephone. These methods are not cost-effective for either SSA or employers, according to SSA. Only about 3,000 employers of about 6.5 million employers have registered to use this system and only between 200-500 employers use this service in any given year.

SSA now has plans to provide this service on-line via the Internet for 50 or fewer requests (name/SSN combinations) per session, if security issues are resolved.

Project Status

Project Start: initiated

Project End Date: 9/00

SSA's Annual Estimated Impact

200,000 wage item reductions from the ESF

5. Establish an Effective Format for Customer Name

This project intends to establish a uniform format for all system source documents to record customer (e.g., employers, wage earners) names. These changes will (1) help eliminate customer and SSA employee confusion when recording names and (2) provide uniform formats to input data to SSA's computer master files.

Most of SSA's data input screens and record formats provide separate fields or boxes to record wage earners' names (i.e., first name, last name and other data). However, there are some source documents that need to be changed to provide for such separate fields or boxes. Currently, the *Application for a Social Security Card* (SSA Form SS-5) and IRS' W-2 and W-4 forms each provide one line to record last name, first name and middle initial. This format causes confusion to both customers and data entry staff when recording names. To eliminate this deficiency, customer names need to be recorded by using separate data fields for all system source documents (paper forms, electronic formats, data input screens and other data). SSA has plans to have the necessary changes implemented. SSA has initiated this effort by modifying its magnetic and electronic wage-reporting format.

Project Status

Project Start: initiated

Project End Date: 1/02 (depends on high level support from the IRS)

SSA's Annual Estimated Impact

No estimate

6. Improve Communication of Report Name/SSN Errors to Employers/Submitters and Employees

This project's intent is that SSA improve the communication of name and/or SSN errors to employers, submitters and employees who file wage reports by magnetic media or paper. SSA intends to review all of its notices and correspondence to filers. The intent is to ensure that accurate and complete error information is clearly provided to filers via faster, more efficient, and convenient methods (e.g., FAX, E-mail, automated voice, U.S. mail, etc.) to prevent unnecessary additions to the ESF.

SSA will also consider sending ESF decentralized correspondence (DECOR) to the employer rather than to the employee. Under current policy, SSA sends DECOR notices to the employee. In general, the employer receives DECOR only when employee addresses are not available.

This project will also consider requiring those who submit paper W-2s to resubmit if they have a specified number or percentage of erroneous W-2s (similar to the process already used for magnetic media submissions). Currently, all paper W-2s are processed either to the MEF records or the ESF. SSA believes that returning erroneous submissions would encourage employers to report employees' names and SSNs correctly.

Project Status

Project Start: initiated

Project End Date: 12/02 (requires a medium level of support from the IRS)

SSA's Annual Estimated Impact

1,000,000 wage item reductions from the ESF

7. Establish Employer's Right to See Social Security Card

This project's intent is to work with the IRS to establish an IRS regulation that would permit employers to see an individual's Social Security card at the time of hire. The purpose is to aid employers' reporting of correct wage and tax information by recording name and SSN directly from the Social Security card. Currently, there is no IRS regulation or legislation that clearly requires prospective employees to show employers their Social Security card.

Project Status

Project Start: initiated

Project End Date: 1/03 (depends on a high level of support from the IRS)

SSA's Annual Estimated Impact

150,000 wage item reductions from the ESF

8. Conduct Outreach Efforts with “Problem” Industries and States

The intent of this project is to work with the INS to develop and execute outreach efforts to target, train, educate and inform “problem” industries and States on AWR filing requirements. Proposed efforts include (1) providing video cassettes on selected AWR topics, (2) issuing special notices, (3) sponsoring and holding regional AWR conferences, (4) participating in industry conferences, and (5) public service announcements.

Project Status

Project Start: initiated

Project End Date: to be determined (depends on collaboration with the INS)

SSA's Annual Estimated Impact

200,000 wage item reductions from the ESF

9. Establish and Implement IRS Penalty Provision for Chronic Problem Employers

The project’s intent is to work with the IRS to establish penalty provisions for employers who repeatedly submit erroneous name/SSN information. The agencies will jointly define the circumstances for applying penalties, the information needed from SSA to support any application of penalties, and the data flows and procedures to be followed.

SSA established a data base, beginning with TY 1993 information, that contains all AWR submittal data (number of reports, number of W-2s, media used, errors detected and other data) that can be used to support improvements in this area.

Project Status

Project Start: to be determined

Project End Date: to be determined (depends on a high level of support from the IRS)

SSA's Annual Estimated Impact

1,500,000 wage item reductions from the ESF

10. Revise SSA's Earnings System to Immediately Accept and Post All Valid W-2s Received from Employers

SSA may use an alternate AWR process for magnetic media filers to replace the current process. If approved, the process will eliminate wage report rejections based on a tolerance level and will process valid W-2 data independently of employer AWR problems. Accurate W-2s will be posted to the MEF. The W-2s with name and SSN mismatches will be placed in the ESF. Those W-2s in error will be returned to the employer for correction and resubmission.

Project Status

Project Start: to be determined

Project End Date: to be determined

SSA's Annual Estimated Impact

50,000 wage item reductions from the ESF

Summary of Projects Designed to Reduce the Earnings Suspense File's Size

Initiative II

Initiative II describes two categories of projects designed to reduce the Earnings Suspense File's (ESF) size. The ESF Tactical Plan describes 2 projects designed to reduce the ESF's size on a one-time basis by about 36.55 million wage items and to establish improvements to the Social Security Administration's (SSA) operations. The following paragraphs summarize the project descriptions and project status.

II.A - Establish Annual Archival Process

SSA intends to develop an ESF archival process that will remove and archive items from the ESF. The first step is completed. It required an analysis of the composition of the ESF to identify groups of items that have little or no chance of being applied to wage earners' records and should be removed/purged. Examples of such items include items with no Social Security number (SSN) and no name (impossible to identify wage earners) and items for years 1937 to 1950 where SSA assumes the person is no longer collecting benefits. The next step will be to develop and implement an annual archival process if the findings and recommendations for step 1 are accepted from involved components. This project has mid-level priority for completion.

Project Status

Project Start: initiated

Project End Date: to be determined

SSA's Annual Estimated Impact

36 million wage item reductions from the ESF on a one-time basis and annual reductions, thereafter

II.B - Pilot Studies to Improve ESF Item Re-examination Processes

SSA has many established processes that re-examine ESF items for posting to wage earners' accounts (i.e., FERRET, SWEEP, DECOR, Operation 30) (see Appendix B for details of these processes). SSA intends to develop and institutionalize other processes and improve existing processes (such as Operation 30) through pilot studies. SSA

evaluates a pilot project's success in terms of return on investment (the amount of resources expended in relation to yield/number of ESF items posted to the Master Earnings File (MEF)).

SSA plans six Pilot Studies to reduce the ESF and post wages to wage earners' MEF records. For all 6 pilot studies, listed below, SSA estimates a combined one-time reduction of 550,000 items and continual reductions if they are incorporated into SSA's operations.

1. Extended Operation 30

Operation 30 (see Appendix B) is an ongoing manual operation assuming that the SSN is correct and the name is wrong. The Wilkes-Barre Data Operations Center keyers review suspended wage items with Numident information for the reported SSN to remove wage items from the ESF to the wage earner's MEF. This operation offers the reviewer two choices:

Category 1 – There is no relationship between the ESF item and the associated Numident, so the item remains in the ESF.

Category 2 – Use the human rules broader than the computer rules to accept the suspended wage item to the associated MEF record.

The Operation 30 Extended Pilot builds on Operation 30 and adds a third category known as Category 3:

Category 3 – A “maybe” or “possible” relationship that should be further investigated by central office operations reviewers.

Pilot Study Status

The Extended Operation 30 pilot reviewed 3 years selected from the period since SSA placed records on line in 1978. The pilot involves Tax Years (TY) 1980, 1986 and 1995. All 3 years have been completed as of March 1999. About 4 percent of the suspended wage items for the 3 TYs are candidates for Extended Operation 30 review (i.e., assumes the SSNs are valid). SSA has been able to reinstate about 75 percent of the candidates to date. The Agency considers this pilot a success and may possibly incorporate it into its editing routines and/or search software.

Pilot Study Start: initiated

Pilot Study End Date: 3/99 (This pilot is completed.)

2. Profiling Employer ESF Histories

This pilot's intent is for proof of concept to profile a reasonable number of employers listed in the ESF year-by-year to show their annual contributions and their contributions for an entire span of years. These history profiles should show when an employer and year are "out of pattern" when compared to their own "normal" annual ESF pattern. SSA will investigate these "out of pattern" instances for processing abnormalities and will attempt to fix them through review of its internal records. SSA believes it will collect useful data and develop projections of the number of items that could be moved from the ESF to the MEF, if the concept is valid. In addition, it is an attempt to discover ways that software development can aid this project or ESF reduction. This pilot is limited to Annual Wage Report years 1978 and later because investigative records are on-line and more complete since that date. The pilot is limited to large contributors to the ESF.

Pilot Study Status

SSA will not spend a lot of time on this pilot because due to other priorities and the work done to date indicates a low reinstatement payoff. SSA found that item correction adjustments caused spikes or out of pattern distortions. For example, Employer A's wage items processed in a year as another employer's wage items, then later corrected (adjusted) caused a spike.

Pilot Study Start: initiated

Pilot Study End Date: 8/99

3. Evaluate Wage Level/Tax Year Connections to Reinstatements

This pilot's intent is to stratify ESF data by TY in \$10,000 wage level increments to find an effectiveness line to investigate and resolve ESF items. Above this effectiveness line SSA expected high payoff for reinstatements and below the line, low payoff. For example, there was an expected high payoff for reinstatements for those wage earners with continued employment. Continued employment creates conditions for fuller earnings records and more salary. In contrast, wage earners with short job tenure and minimal employment records are conditions for low payoff. ESF resolution on this basis would significantly lower the average wage in the ESF and the number of ESF items, according to SSA.

Pilot Study Status

SSA hoped for a high success rate for this pilot on the assumption that high earnings would be an indication of stable employment history. However, the work done for this pilot shows that SSA is not projecting many reinstatements but rather wage item removal or archiving. Rather than earnings, they found, for example, subtotals (i.e., every 41st item on manual annual wage reports not always coded or processed correctly, resulting in large dollar items ending up in the ESF); these subtotals should simply be removed from the ESF, not reinstated. Finding and fixing such situations probably would not remove a large number of

items from the ESF but should remove a relatively large dollar amount from the ESF. The years analyzed are 1979, 1984, 1989 and 1995.

Pilot Study Start: initiated
Pilot Study End Date: 2/00

4. Consider “No Name Situations” as Leads to Possible Reinstatements

This pilot’s intent is to review a sample of “no name situations” in the ESF to determine (1) an accurate sample of reporting mistakes and (2) the percentage of instances where SSA can make a reinstatement. In recent years, many “no name situations” have occurred where data exists in the name field but that data has no value to SSA’s validation rules, e.g., a title such as “Executrix” in the name field. SSA believes these situations generally are processing or reporting mistakes rather than wages that do not belong to that person.

Pilot Study Status

This pilot was to be done manually but is now on hold. For this pilot, SSA’s Office of Central Operations has developed a listing of 115 common “no name situations” for future electronic matching to reinstate items from the ESF to the MEF. There is no established target date for this pilot study.

The pilot may be overtaken by events before it is initiated. A process known as Intelligent Name Search Software may be used as a test bed and negate the need for this manual pilot. This software is part of Earnings Modernization (EM 2.8.5), which provides name access to the ESF.

Pilot Study Start: to be determined
Pilot Study End Date: to be determined

5. Human Evaluation of Multiple Possibles (Presently Rejected By “Single Selects” Operation)

SSA intends to expand its “Single Selects” operation (see Appendix B) with human intervention to find record matches. The electronic single select operation assumes the reported name is correct but the SSN is wrong. Transposition of digits in the SSN is the main reason for SSN error. Ghost records are created from transposition patterns of the reported SSN, all with the reported name. The system screens these ghost records for one and only one name match for wage earner reinstatement. When multiple matches occur for a name, “Single Selects” rejects the item for reinstatement and the item goes to the ESF. This pilot intends to use a human review to screenrecords with more than one match to find the wage earner’s SSN from a list of multiple selects of as many as four possible record matches.

Pilot Study Status

Pilot Study Start: to be determined

Pilot Study End Date: to be determined

6. Identify Incomplete Earnings Records

This project's intent is to examine beneficiaries' records to determine whether they have been adversely affected by having earnings in the ESF. Claimants may be wrongly denied benefits or paid less than they are entitled because of incomplete earnings records.

SSA's Office of Quality Automation/Assessment has research pilots designed to find an automated approach to identify earnings records that are incomplete, locate the missing earnings, correct the earnings record and adjust benefit payments.

Pilot Study Status

There are several efforts underway in field offices in California associated with this pilot study. Earnings Record profiling software and ESF search software are being developed. The pilot started in June 1997. Software development is scheduled through May 1999. This pilot study is scheduled for completion in July 1999.

Pilot Study Start: initiated

Pilot Study End Date: 7/99

Summary of Monitoring Mechanisms for the Earnings Suspense File Projects

Initiative III

Initiative III describes the monitoring mechanisms for the Earnings Suspense File (ESF) projects.

This initiative is to establish an ESF oversight mechanism to ensure that the projects for ESF prevention and reduction are successful, efficient and effective. This initiative involves: (1) developing the needed management information; (2) conducting a formal annual review of ESF experience; and (3) preparing an annual report on the status of the ESF containing findings and recommendations. Management information will include composition of the ESF to evaluate the items in this File (e.g., the number of items in the File with no name, no surname, and/or with no Social Security number (SSN), earnings after death, young children with earnings, invalid SSNs and so on).

The management information will also include: the geographical locations of major ESF contributors; the industries that are repeat offenders; and other trend data to identify systemic issues. Table 1 below shows this project's status.

Table 1:
Establish ESF Monitoring Mechanisms

#	Monitoring Description	Project Status (Start) (End)	
A.	Define Management Information (MI) Needed to Monitor Success of ESF Tactical Plan	4/99	7/99
B.	Determine Whether MI Needed Is Available in Sufficient Form and Time Frame	7/99	10/99
C.	Change Existing and/or Build New Systems to Provide Needed MI	10/99	9/01

Project Start: 4/99

Project End Date: 9/01

Four Validation Rules Identifying More Wage Earners' Records

In October 1997, the Social Security Administration (SSA) implemented four validation rules to identify more incoming wage earners' records and to identify more wage earners' records already in the Earnings Suspense File. All of the validation rules are used to validate the processed name and Social Security number (SSN) (from wage reports) to the Numident name and SSN (the Numident is a SSA record). In all these situations, the reported SSN matches a valid SSN in SSA's Numident file, but the names are not an exact match. The new validation rules manipulate name information in an attempt to find relationships that allow the SSA to establish a match and post wages to the person's record in the Master Earnings File. These rules were first used for part of Tax Year (TY) 1996. They will be used for all validation processes and all TYs.

Rule 1 - MOTHER'S MAIDEN NAME

Compare the first 7 positions of the reported surname to the first 7 positions of the mother's maiden name on the Numident, AND the first 5 positions of the reported first name to the first 5 positions of the number holder's first name on the Numident.

Rule 2 - FATHER'S SURNAME

Compare the first 7 positions of the reported surname to the first 7 positions of the father's surname on the Numident, AND the first 5 positions of the reported first name to the first 5 positions of the number holder's first name on the Numident.

Rule 3 - NUMIDENT COMPRESSION

Compare the first 7 positions of the reported surname to the first 7 positions of the compressed surname on the Numident, AND the first 5 positions of the reported name to the first 5 positions of the number holder's first name on the Numident.

Rule 4 - SURNAME PREFIX

Take the Numident surname and place it in front of the Numident first name. Compare the combined Numident surname/first name to the reported surname. Consider valid if there is a match on seven positions.

APPENDIX G

SSA COMMENTS

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG)
DRAFT REPORT, "THE SOCIAL SECURITY ADMINISTRATION'S
EARNINGS SUSPENSE FILE TACTICAL PLAN AND EFFORTS TO
REDUCE THE FILE'S GROWTH AND SIZE (A-03-97-31003)

Thank you for the opportunity to review this draft report. As noted in the report, the Social Security Administration (SSA) has, for some time, been engaged in a variety of activities geared to reducing the growth and size of the Earnings Suspense File (ESF). Many of these actions continue. The following comments highlight some of the actions taken and underway which are geared to making further improvements in this area.

OIG Recommendation

Implement an Earnings Suspense File (ESF) Tactical Plan that places a high priority on key ESF reduction initiatives to include: Utilizing OIG information to refine SSA's data base of chronic problem employers and to key in on those with a multi-year history of submitting large numbers of erroneous wage items.

SSA Comment

ESF initiatives continue to receive significant Agency attention. We agree that it is important to address the size and growth of the ESF, and we are taking actions to implement the corrective strategies detailed in the ESF Tactical Plan.

We agree better targeting of chronic problem employers is necessary, especially those with a multi-year history of submitting large numbers of erroneous wage items. To assist us with this targeting, we are currently developing the Earnings Management Information Operational Data Store (EMODS) Release 2.0, and are focusing on the earnings suspense issues in this release. EMODS 2.0 will establish a new earnings suspense management information database with flexible tools and techniques enabling a variety of analyses of the ESF.

As we continue to improve, and to target chronic problem employers, it is important to note the cooperation and support of the IRS is necessary to solve current ESF concerns. As the audit shows in Table 1, we have a number

of initiatives whose success is dependent on outside assistance, and the other recommendations in this report require a close relationship between SSA and the IRS. Although we have numerous ongoing initiatives and procedures in place, we believe the imposition of penalties by the IRS on chronic problem employers is necessary.

OIG Recommendation

Assign a higher priority to work with the Internal Revenue Service (IRS) to prepare a legislative proposal to clarify employers' right to see the Social Security card before hiring.

SSA Comment

We agree. In this regard, the Commissioner of Social Security wrote to the Commissioner of the IRS requesting IRS cooperation in this endeavor.

OIG Recommendation

Pursue with IRS penalties on chronic problem employers.

SSA Comment

We agree. We have written the IRS urging them to consider imposing penalties on problem employers. IRS has expressed concern with the application of penalties in general because of the complexity and difficulty in determining whether an employer has exercised appropriate diligence in obtaining the necessary information. We are providing the IRS with the additional information OIG has developed in an effort to address some of the IRS concerns.

OIG Recommendation

Seek sanctioning (penalty) authority if IRS fails to impose penalties against chronic problem employers.

SSA Comment

As noted above, we are working with the IRS to facilitate IRS application of penalties on problem employers. As IRS now has the authority and infrastructure to impose

such penalties, we believe that the IRS can more effectively apply such penalties.

Other Matters

The second footnote in the background section of the report (page i) notes that quoted expected reductions to the ESF are the Agency's intuitive estimates. Because they are estimates, and not based on pilot studies or sampling techniques, we believe it is not appropriate to include such estimates in the report.

The background section of the report (page ii) notes SSA's plans to expand the existing EVS and SSA efforts associated with the 7,000 employers (which the report misstates as "employees") who contributed the most to the ESF. These 7,000 employers represented nearly 30 percent of suspended items, and several million employees. However, the report does not mention SSA telephone efforts with employers to verify names and SSNs. Through our employer 800 number, we perform this activity daily. In fiscal year (FY) 1997 SSA handled 5,000 calls. In FY 1998 we answered 40,000 calls, and during FY 1999 we handled 215,000 calls. Since we expend considerable effort with employers who are concerned about reporting correctly, we believe the OIG report should more specifically recognize this effort.

The conclusions and recommendations section of the report (page iii) indicates that SSA needs a plan to address the possible system improvements needed for Extended Operation 30. Included in our planning in this area is an effort now underway to assess the impact of the new Intelligent Name Search Software on items identified as possible reinstates via Extended Operation 30. It is possible that Extended Operation 30 will have no value and that the reinstates will come from use of this software, and not from Extended Operation 30. If this proves to be correct, no further planning steps are necessary.

The results for FY 1999 for numerous edit rules within the first project noted on page 4 (Table 1, item 1) have yielded 260,000 reductions to the ESF, rather than 60,000 as noted.

In the discussion of the EVS (page 5) the report states that this program is for "certain" employers. In fact, there are no restrictions to EVS--it is for all employers.

EVS not only accepts electronic inputs but also telephone and paper activity as well.

The results section of the report (page 7) indicates that employers contacted by SSA were unaware of wage reporting problems prior to contact. It would be more accurate to indicate that some employers were unaware. The ones that were not aware were those with large numbers in suspense, but whose numbers did not reach 10 percent of their report. We addressed part of this omission last year through adjustments in criteria used to return magnetic media files with name/SSN errors. We plan to address the rest through adjustments to our educational correspondence threshold criteria.

We believe the report section "Employers Unaware of Their Wage Reporting Problems" (page 9) should note SSA actions taken when we encounter annual wage reports that exceed the error tolerance level. When this occurs, a letter (Educational Correspondence - EDCOR) is sent to the employer explaining the mistakes so that the employer can avoid these errors in future submissions.

We suggest that Appendix B be renamed "Major Operations/Editing Routines for Wage Records," since not all topics listed are editing routines (e.g., the SWEEP operation). Also, in the Appendix B section on SWEEP (page B-2) the second paragraph should state "...software from TY 1997 back to TY 1937."

APPENDIX H

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For additional copies of this report, please contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-5998. Refer to Common Identification Number A-03-97-31003.

APPENDIX I

SSA ORGANIZATIONAL CHART
