



SOCIAL SECURITY

MEMORANDUM

Date: September 30, 2005 **Refer To:**

To: The Commissioner

From: Inspector General

Subject: Usefulness of Decentralized Correspondence in Focusing Employer-Assistance Activities (A-03-05-25007)

The attached final report presents the results of our audit. Our objective was to determine whether employee addresses within the Social Security Administration's Decentralized Correspondence file can provide useful information to strengthen the Agency's employer-assistance activities.

Please provide within 60 days a corrective action plan that addresses each recommendation. If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.



Patrick P. O'Carroll, Jr.

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**USEFULNESS OF DECENTRALIZED
CORRESPONDENCE IN FOCUSING
EMPLOYER-ASSISTANCE ACTIVITIES**

September 2005

A-03-05-25007

AUDIT REPORT



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- **Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- **Promote economy, effectiveness, and efficiency within the agency.**
- **Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- **Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- **Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- **Independence to determine what reviews to perform.**
- **Access to all information necessary for the reviews.**
- **Authority to publish findings and recommendations based on the reviews.**

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.

Executive Summary

OBJECTIVE

Our objective was to determine whether employee addresses within the Social Security Administration's (SSA) Decentralized Correspondence (DECOR) file can provide useful information to strengthen the Agency's employer-assistance activities.

BACKGROUND

The purpose of the DECOR process is to contact employees and employers to resolve Social Security number (SSN) and/or name discrepancies on reported earnings. Such earnings are posted to the Agency's Earnings Suspense File (ESF) until the discrepancies can be resolved. The DECOR letter provides the wage earner with information about the reported name/SSN and wage amount, and requests that the reported information be reviewed, verified or corrected where possible, and returned. While SSA sends most of the DECOR letters to employees, SSA also sends a letter to the employer when an employee's address is unavailable. SSA uses the replies to resolve the earnings discrepancies. For Tax Year (TY) 2002, SSA mailed approximately 9.5 million DECOR letters, relating to approximately \$60.4 billion in wages, to employees and employers. Approximately 7.6 million of these letters were sent directly to employees.

RESULTS OF REVIEW

Our review of the TY 2002 DECOR employee file indicates that employees living in 10 States represent 72 percent of the items in the file, even though these States represent about 48 percent of the national workforce. We also found inconsistencies in the volume of suspended wage items for particular States when compared to those States' share of the national workforce. For example, while the State of California has 11 percent of the Nation's workforce, it represents about 30 percent of the suspended items in the file.

Our audit also indicates that SSA's strategy for assisting employers with wage reporting problems may not sufficiently account for the diffusion of reporting problems throughout the country. The Agency aligns its Employer Service Liaison Officer (ESLO) activities on a regional basis, and identifies the employers located in each region by using the payroll address of each employer. However, an employer operating in multiple States may have its most significant problems in another part of the country. For example, we identified an employer with a payroll address in Texas being assisted by the Dallas-based ESLO, and yet the majority of the employees with suspended wage items resided in California under the jurisdiction of a different ESLO.

Finally, we found problematic national trends, including valid SSNs being misused hundreds of times in multiple States and the same employee address being used by thousands of individuals. In 11 cases, a valid SSN was used more than 400 times by various individuals during TY 2002. For instance, we found 1 case where a valid SSN belonging to a child was used to report 742 wage items by individuals residing in 42 different States. These trends should be of interest to SSA in its efforts to reduce the size of the ESF as well as protect the integrity of the SSN.

CONCLUSION AND RECOMMENDATIONS

The DECOR employee file provides a useful profile of the employers submitting wage reports with name/SSN mismatches. By using the address information, the Agency's ESLOs can learn more about the specific problems of employers within their jurisdiction. Furthermore, by knowing specifically where DECOR letters are mailed, the Agency can better target its employer outreach efforts. Finally, potential SSN misuse and other trends can be proactively monitored by the Agency as it attempts to protect the integrity of the SSN.

To improve the focus of the Agency's employer-assistance activities and protect the integrity of the SSN and associated earnings postings, we recommend SSA:

- Consider using addresses in the DECOR employee file to enhance coordination among ESLOs when the employer wage reporting problems relate to multiple regions around the country.
- Consider using addresses in the DECOR employee file to identify relevant trends among employees with suspended wages and focus ESLO efforts.
- Review and correct the earnings record of the child noted in this report, as well as the earnings records related to the remaining 10 valid SSNs misused more than 400 times.

AGENCY COMMENTS

SSA agreed with our recommendations. The full text of SSA's comments is included in Appendix G.

Table of Contents

	Page
INTRODUCTION.....	1
RESULTS OF REVIEW	3
Suspended Wage Items by Employee Address	3
Employer Service Liaison Officer's Coverage	5
Other Trends Among the Suspended Wage Items.....	7
• Frequently Misused Social Security Numbers	7
• Frequent Addresses	8
CONCLUSIONS AND RECOMMENDATIONS.....	10
APPENDICES	
APPENDIX A – Acronyms	
APPENDIX B – Decentralized Correspondence Flowchart	
APPENDIX C – Scope and Methodology	
APPENDIX D – Ranking of States by Suspended Wage Items and State Workforce	
APPENDIX E – Prior OIG Report Ranking of States by Total Suspended Wage Items	
APPENDIX F – Additional Analysis on the Decentralized Correspondence Employer File	
APPENDIX G – Agency Comments	
APPENDIX H – OIG Contacts and Staff Acknowledgments	

Introduction

OBJECTIVE

Our objective was to determine whether employee addresses within the Social Security Administration's (SSA) Decentralized Correspondence (DECOR) file can provide useful information to strengthen the Agency's employer-assistance activities.

BACKGROUND

Title II of the Social Security Act requires that SSA maintain the reported earnings records of individuals.¹ SSA uses these reported earnings to determine whether an individual is entitled to receive retirement, survivors, disability and health insurance benefits and to calculate benefits. SSA validates the names and Social Security numbers (SSN) on the *Wage and Tax Statement* (Form W-2) against information in its records. Earnings containing names and/or SSNs that do not match SSA's records cannot be posted to an individual's earnings record in SSA's Master Earnings File (MEF).² Instead, these wages are placed in SSA's Earnings Suspense File (ESF)—a repository for unmatched wages. As of October 2004, the ESF had accumulated about \$463 billion in wages and 246 million wage items for Tax Years (TY) 1937 through 2002 that could not be posted to individuals' earnings records. Accumulation over TYs 1993 through 2002 accounts for \$322 billion of the \$463 billion in suspended wages, or 70 percent.³

The purpose of the DECOR process is to contact employees and employers to resolve SSN and/or name discrepancies on wage items stored in the ESF. The letter provides the wage earner with information about the reported name/SSN and wage amount, and requests that the reported information be reviewed, verified or corrected where possible, and returned. While SSA sends most of the DECOR letters to employees,⁴ SSA sends a letter to the employer when an employee's address is incomplete or incorrect.⁵ SSA

¹ The Social Security Act § 205(c)(2)(A), 42 U.S.C. § 405(c)(2)(A).

² The MEF contains all earnings data reported by employers and self-employed individuals. The data is used to calculate the Social Security benefits due an individual with an earnings record.

³ These numbers relate to wages reported by employers and not self-employment income. SSA maintains a separate ESF file for suspended self-employment income.

⁴ SSA uses employee addresses reported on the W-2.

⁵ SSA uses the employer address related to the Employer Identification Number (EIN) reported on the W-2. The EIN is a 9-digit number assigned by the Internal Revenue Service (IRS) to sole proprietors, corporations, partnerships, estates, trusts, and other entities for tax filing and reporting purposes. The employer address related to the EIN is provided by the IRS.

uses the responses to resolve the earnings discrepancies. For TY 2002,⁶ SSA mailed approximately 9.5 million DECOR letters, relating to approximately \$60.4 billion in wages, to employees and employers.⁷ See appendices B and F for more background on the DECOR letters. Approximately 7.6 million DECOR letters were sent to employees and another 1.9 million letters were sent to employers (see Table 1). Furthermore, our analysis of the entire TY 2002 DECOR file showed there were about 884,000 specific employers in this file.

Table 1: Breakout of the Tax Year 2002 DECOR File

File Contents	Wage Items	Wages	Percent of Items Per File
Employee File	7.6 million	\$49.8 billion	80
Employer File	1.9 million	\$10.6 billion	20
Total	9.5 million	\$60.4 billion	100

We analyzed the 9.5 million wage items contained in the TY 2002 DECOR file and determined that approximately 9 million (94 percent) of these wage items were related to TY 2002, while the remainder related to prior TYs. For example, approximately 264,000 wage items related to TY 2001 (see Table 2).

Table 2: Reported Tax Years in the Entire DECOR File

Tax Year	Number of Wage Items	Volume of Wages
2002	8,992,179	\$57.6 billion
2001	264,477	\$1.4 billion
2000	130,689	\$.8 billion
1978-1999	142,266	\$.6 billion
Blank	278	\$.004 billion
Total	9,529,889	\$60.4 billion

Note: Blank indicates that there was no tax year associated with these wage items.

⁶ Although the letters were mailed during Calendar Year (CY) 2003, the majority of these wage items related to TY 2002. As a result, we will refer to this file as a "TY 2002" file in this report. We reviewed the TY 2002 DECOR mailer file since that was the most recent file available at the time of our review.

⁷ Our report does not discuss self-employment income nor the letters sent to individuals with suspended self-employment income. During CY 2003, SSA sent approximately 131,000 letters to individuals with suspended self-employment income.

Results of Review

Our review of the TY 2002 DECOR employee file indicates that employees living in 10 States represent 72 percent of the items in the file, even though these States represent about 48 percent of the national workforce. We also found inconsistencies in the volume of suspended wage items for particular States when compared to those States' share of the national workforce. For example, while the State of California has 11 percent of the Nation's workforce, it represents about 30 percent of the suspended items in the file. Our audit also indicates that SSA's strategy for assisting employers with wage reporting problems may not sufficiently account for the diffusion of reporting problems throughout the country. The Agency aligns its Employer Service Liaison Officer (ESLO) activities on a regional basis using the payroll address of an employer. However, an employer operating in multiple States may have its most significant problems in another part of the country. For example, we identified an employer with a payroll address in Texas being assisted by the Dallas-based ESLO, and yet the majority of the employees with suspended wage items resided in California under the jurisdiction of a different ESLO. Finally, we found problematic national trends, including valid SSNs being misused hundreds of times in multiple States and the same employee address being used by thousands of individuals. In 11 cases, a valid SSN was used more than 400 times by various individuals during TY 2002. For instance, we found 1 case where a valid SSN belonging to a child was used to report 742 wage items by individuals residing in 42 different States. These trends should be of interest to SSA in its efforts to reduce the size of the ESF as well as protect the integrity of the SSN.

SUSPENDED WAGE ITEMS BY EMPLOYEE ADDRESS

Our analysis identified the States with employees contributing the highest number of items to the DECOR employee file.⁸ The top 10 States⁹ accounted for 72 percent of the TY 2002 DECOR letters sent to employees even though they represent about 48 percent of the national workforce as shown in Table 3 (see Appendix D for a ranking of all 50 States and the District of Columbia). When we compared these 10 States to the top 10 States in terms of total workforce, we found inconsistencies in the volume of suspended wage items for particular States when compared to those States' share of the national workforce. For example, while the State of California has 11 percent of the Nation's workforce, it represents about 30 percent of the suspended items in the file. However, in the case of New York, the State had about half the expected proportion of

⁸ This analysis was based on DECOR letters sent to employees in the 50 States plus the District of Columbia; or about 80 percent of all suspended wage items. We reviewed the DECOR employee file since it contained the employees' addresses. As we noted earlier, SSA will send a letter to an employer when it lacks a valid address for the employee. Since items in the DECOR employee file represent ESF wage items, our findings should directly correlate with the contents of the TY 2002 ESF. See Appendix F for more on the DECOR letters sent to employers.

⁹ In our analysis of the 20 percent of DECOR notices sent to employer addresses we found that the same 10 States were predominant.

suspended items when compared to its percent of the national workforce, and Georgia had the same suspended item and workforce percentages.

**Table 3: Comparison of the Top Ten States Ranking of Suspended Wages Items and National Workforce
(Based on a Review of the Tax Year 2002 DECOR Employee File)**

States ⁽¹⁾	Ranking in Terms of Wage Items	Percent of DECOR Notices	Ranking in Terms of State Workforce	Percent of the National Workforce ⁽²⁾
California	1	29.7	1	11.0
Texas	2	9.6	2	7.0
Florida	3	6.8	4	5.7
Illinois	4	6.2	6	4.3
New Jersey	5	4.0	9	3.1
New York	6	3.4	3	6.6
Arizona	7	3.3	21	1.8
North Carolina	8	3.2	10	3.0
Washington	9	3.2	15	2.2
Georgia	10	3.0	11	3.0
Totals		72.4%		47.7%

Notes: (1) Our analysis does not include DECOR letters sent to Guam, Puerto Rico, American Samoa, Virgin Islands, Marshall Islands, and overseas addresses related to the Armed Forces. A total of 4,397 letters related to these locations.

(2) State workforce statistics were taken from *State Statistics*, Office of Policy, SSA, December 2003, http://mwww.ba.ssa.gov/policy/docs/quickfacts/state_stats/.

We also noticed differences in the State rankings in the DECOR employee file compared to the national workforce. These differences could be attributed to a number of factors, including the type of industries predominant in each State as well the level of unauthorized work and SSN misuse.¹⁰ As we have noted in our earlier review of this area, the three industries contributing the highest number of items to the ESF include agriculture, restaurants and services.¹¹ SSA has previously stated that many suspended items involve the agricultural industry, which has transient employees who

¹⁰ For example, the State of Arizona's ranking in the DECOR employee notices was much higher than its ranking by State workforce. According to a March 2005 report from the Pew Hispanic Center, *Estimates of the Size and Characteristics of the Undocumented Population*, Arizona is now among the States with the largest number of undocumented migrants (approximately 500,000 out of a 10 million undocumented migrant population for 2002 through 2004). In addition, a February 2005 Federal Trade Commission report entitled, *National and State Trends in Fraud & Identity Theft*, lists the Phoenix-Mesa-Scottsdale area in Arizona as the number one major metropolitan statistical area in the United States for identity theft (out of 49 major metropolitan areas).

¹¹ SSA OIG, *Employers with the Most Suspended Wage Items in the 5-Year Period 1997 through 2001* (A-03-03-13048), October 2004.

may not have work-authorization from the Department of Homeland Security.¹² Other high turnover industries, such as fast food, restaurants and other service industries, have similar profiles. Frequent job and residential changes are not uncommon with members of these workforces. These actions complicate name/SSN correction efforts when recontacts are necessary.

EMPLOYER SERVICE LIAISON OFFICER'S COVERAGE

Some of the other trends we noticed in the DECOR employee file, such as the distribution of an employer's workers across multiple States, should be of interest to SSA in terms of understanding the source of wage items going into the ESF. SSA provides assistance to employers through ESLOs located in 10 regions throughout the United States. The ESLOs (1) answer employers' questions on wage reporting submissions; (2) encourage employers to use SSA's various programs, such as the Employee Verification Service; (3) conduct wage-reporting seminars, in partnership with the IRS; and (4) contact employers with significant suspended wage items in their regions.

Since 1996, SSA's Office of Public Service and Operations Support has developed a national listing of employers, who submit 100 or more suspended wage items. The listing uses the employer's address related to the EIN to determine the relevant region. These lists are sent to regional ESLOs for follow-up contacts with the employers. SSA does not direct the ESLOs to contact specific employers or follow up with the ESLOs regarding what contacts were made and the results of the contacts.¹³

We reviewed the DECOR employer letters sent to five Texas-based employers highlighted in an earlier audit for having a large number of suspended wages items.¹⁴ We determined that three of the five employers had more than half of their employee problems fall outside Region VI,¹⁵ thereby falling under the jurisdiction of another ESLO (see Table 4). SSA sent 2,082 DECOR letters to employees of one these companies, of which 1,959 (or 90.1 percent) were sent to employees who resided outside of Region VI. Again, this distribution of an employer's workforce problems may call for greater coordination between the ESLO in Region VI and other relevant ESLOs.

¹² SSA OIG, *Status of the Social Security Administration's Earnings Suspense File* (A-03-03-23038), November 2002.

¹³ In our discussions with SSA staff we learned that some ESLO regions are still sending out large volumes of correspondence to employers asking them to correct their wage reports. We were also told that a few years ago the ESLOs had a concerted effort to contact the employers with more than 100 items in suspense but the response rate from the employers was very low.

¹⁴ SSA OIG, *Employers with the Most Suspended Wage Items in the 5-Year Period 1997 through 2001* (A-03-03-13048), October 2004.

¹⁵ SSA's Region VI includes Arkansas, Louisiana, Oklahoma, New Mexico and Texas.

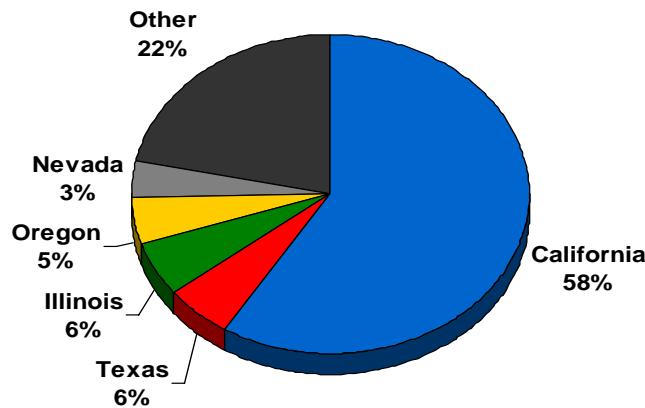
Table 4: Review of Five Employers in Texas¹
(Comparison of Payroll Address and Tax Year 2002 DECOR Employee File Address)

Employer	Industry	Total Items in DECOR Employee File²	Total Items in Region VI	Total Items in Other Regions	Percent in Other Regions
1	Services	27,225	5,785	21,440	78.8
2	Services	13,327	5,458	7,869	59.1
3	Services	3,646	3,646	0	0
4	Restaurant	3,171	2,876	295	9.3
5	Services	2,082	206	1,876	90.1

Note: (1) These Texas-based employers were among the Top 100 employers in the United States during TYs 1997-2001. See SSA OIG, *Employers with the Most Suspended Wage Items in the 5-Year Period 1997 through 2001* (A-03-03-13048), October 2004.
(2) Our comparison is based on the suspended wage items in the DECOR employee file, where employee addresses were available. Each employer above had at least 83 percent of their overall suspended wage items in the employee file.

The above comparison indicates that an ESLO with a full understanding of the wage item distribution throughout the country could be in a better position to assist an employer and pinpoint potential weaknesses in its payroll process. For instance, employer #5 in Table 4 above with 90.1 percent of the letters mailed to employees who reside outside Region VI may want to know which States in particular have employees with mismatched names and SSNs. If the ESLO had the same information we used as part of this audit, he or she could share with this employer the fact that most of the problems relate to California-based employees (see Figure 1). We spoke to the Dallas Region ESLO about our findings and she stated that this employee information could assist her in her discussions with employers and/or other ESLOs around the country.

**Figure 1: Distribution of Employee Addresses
Related to Texas-Based Employer #5 (from Table 4)**



Note: The Other category includes 26 States with 72 or fewer items per State.

By using the employee address information, SSA can learn more about the suspended wage items than simply the employer's payroll address and determine those regions experiencing the highest volume of wage reporting problems. As a result, we believe that this DECOR information can assist ESLOs in targeting areas of the country in need

of additional education or special programs/pilots. For example, SSA may want to schedule seminars on the Social Security Number Verification System (SSNVS)¹⁶ in those areas of the country where employee mismatches are most frequent.

OTHER TRENDS AMONG THE SUSPENDED WAGE ITEMS

We also reviewed the DECOR employee file for potential SSN misuse trends across the Nation. We reviewed both multiple uses of the same SSN by different individuals and duplicate addresses. These trends should be of interest to SSA in its efforts to ensure employees receive notice of wage reporting problems and protect the integrity of the SSN.

Frequently Misused Social Security Numbers

In our analysis of the top 100 SSNs appearing most frequently within the DECOR employee file for the entire Nation we determined that 74 of these 100 SSNs were valid SSNs issued by SSA and used during TY 2002 by various individuals throughout the country to report over 21,000 wage items.¹⁷ Of these valid SSNs, 11 numbers were used more than 400 times.¹⁸

We profiled 1 of these 11 valid SSNs that appeared in the DECOR employee file and determined that there were 742 uses of this particular SSN reported by 716 employers for individuals residing in 42 different States.¹⁹ We reviewed SSA's systems and determined that the owner of this SSN is a child who was born in Mexico in September 1991. Of the 742 wage items reported under this SSN, the State of California accounted for 450 wage items, or 61 percent.²⁰ A further review of the ESF for TYs 1998 through 2001 showed that the child's SSN was used over 3,900 times.

We reviewed the child's earnings record to determine how many of the reported wage items may have been posted to his record in the MEF. We determined that for TYs 1998 through 2003 (when the child was 7 through 12 years of age), there were 15 wage postings related to employers in the restaurant and manufacturing industries, with approximately \$126,247 of total earnings posted to the child's record (see Table 5).

¹⁶ SSNVS is an on-line service that enables employers and submitters to verify employee names and SSNs with information in SSA's records for the W-2 reporting purposes.

¹⁷ The remaining 26 SSNs were invalid numbers such as 999-99-9999.

¹⁸ A review of the 11 numberholders' information indicates that 5 of the 11 were born outside of the United States, 5 were born in California, and 1 numberholder was born in Maryland. Furthermore, the ages of these individuals in TY 2002 ranged from 1 to 65 years of age.

¹⁹ These numbers only relate to the DECOR employee file where we can obtain an employee address. We found that this SSN had been used an additional 177 times in the DECOR employer file related to 168 employers.

²⁰ Within the State of California, individuals living in the city of Los Angeles used this SSN 159 times.

A review of the W-2s used to report these TY 1998 through 2003 posted wages indicate the earners lived in at least five different addresses within California during this period.²¹

Table 5: Questionable Postings to Child's Earnings Record

Tax Year	Age at Time of Posting	Number of Wage Postings	Total Annual Wages Posted
1998	7	3	\$30,331
1999	8	3	\$25,728
2000	9	3	\$24,677
2001	10	2	\$31,140
2002	11	3	\$10,438
2003	12	1	\$3,933
Totals		15	\$126,247

The above case, as well as the other SSNs used multiple times, represents ongoing SSN misuse within the economy that not only leads to an increase in the size of the ESF, but can also lead to erroneous postings within SSA's records and deterioration in the quality of information in SSA's MEF. In this case, the child's earnings record appears to have postings that will need to be corrected.²² We referred the above case to SSA staff for additional review to determine if some of the wages need to be removed and placed into the ESF.

Frequent Addresses

We reviewed trends related to the most frequently used addresses within the TY 2002 DECOR employee file and determined that 6 of the top 10 most frequently used addresses were located in the State of Florida (see Table 6). In addition, all six of these Florida addresses related primarily to agricultural employers. The remaining four addresses represented the services industry. Of the 15,133 suspended wage items listed below, the State of Florida accounted for 11,122 wage items (or 73.5 percent), with corresponding wages totaling about \$19.2 million. The address receiving the highest volume of DECOR letters (Address #1 in Table 6) was a "general delivery"²³ address located in a Florida city known for its farmlands and high population of farmworkers.

²¹ In addition, some postings were under the same last name as the child, though it is possible the name relates to a family member.

²² During the Annual Wage Reporting process, SSA checks the Numident for the reported SSN for the date of birth. If the date of birth indicates the numberholder is a child age 6 or younger, the earnings will be identified as a Young Children's Earnings Record item and placed into suspense.

²³ A "General Delivery" address is used when an individual wants his/her mail to be held at a Main Post Office for up to 30 days. The United States Postal Service's website notes that "This is also a great option if you don't have a permanent address."

Table 6: Frequency of Addresses in TY 2002 DECOR Employee File

Address	Location of Address	Industry	Wage Items in ESF (Per Address)	ESF Wages	Number of Employers	Type of Location
1	Florida	Agriculture	3,748	\$2.9 million	33	General Delivery
2	Florida	Agriculture	2,521	\$5.9 million	11	Post Office Box
3	Florida	Agriculture	2,261	\$3.3 million	107	Post Office Box
4	Florida	Agriculture	920	\$2.7 million	8	Post Office Box
5	Florida	Agriculture	851	\$2.4 million	4	Employer Address
6	Florida	Agriculture	821	\$1.9 million	7	Street Address
7	California	Services	1,353	\$6.8 million	8	Employer Address
8	Georgia	Services	933	\$1.8 million	16	Street Address
9	Tennessee	Services	914	\$4.7 million	254	Employer Address
10	Kansas	Services	811	\$4.4 million	208	Apartment Building
Total			15,133	\$36.8 million	656	

These frequently used addresses indicate that employees may not learn about their suspended earnings since the DECOR letters are being sent to (1) incomplete addresses (i.e. an address missing an apartment unit number), (2) employer addresses, and/or (3) general addresses. For example, it is possible that some transient workers are using a “general delivery” address while working for a short time in a particular region of the country.

Conclusions and Recommendations

The DECOR employee file provides a useful profile of the employers submitting wage reports with name/SSN mismatches. By using the address information, the Agency's ESLOs can learn more about the specific problems of employers within their jurisdiction. Furthermore, by knowing specifically where DECOR letters are mailed, the Agency can better target its employer outreach efforts. Finally, potential SSN misuse and other trends can be proactively monitored by the Agency as it attempts to protect the integrity of the SSN.

To improve the focus of the Agency's employer-assistance activities and protect the integrity of the SSN and associated earnings postings, we recommend SSA:

1. Consider using addresses in the DECOR employee file to enhance coordination among ESLOs when the employer wage reporting problems relate to multiple regions around the country.
2. Consider using addresses in the DECOR employee file to identify relevant trends among employees with suspended wages and focus ESLO efforts.
3. Review and correct the earnings record of the child noted in this report, as well as the earnings records related to the remaining 10 valid SSNs misused more than 400 times.

AGENCY COMMENTS

SSA agreed with our recommendations. The full text of SSA's comments is included in Appendix G.

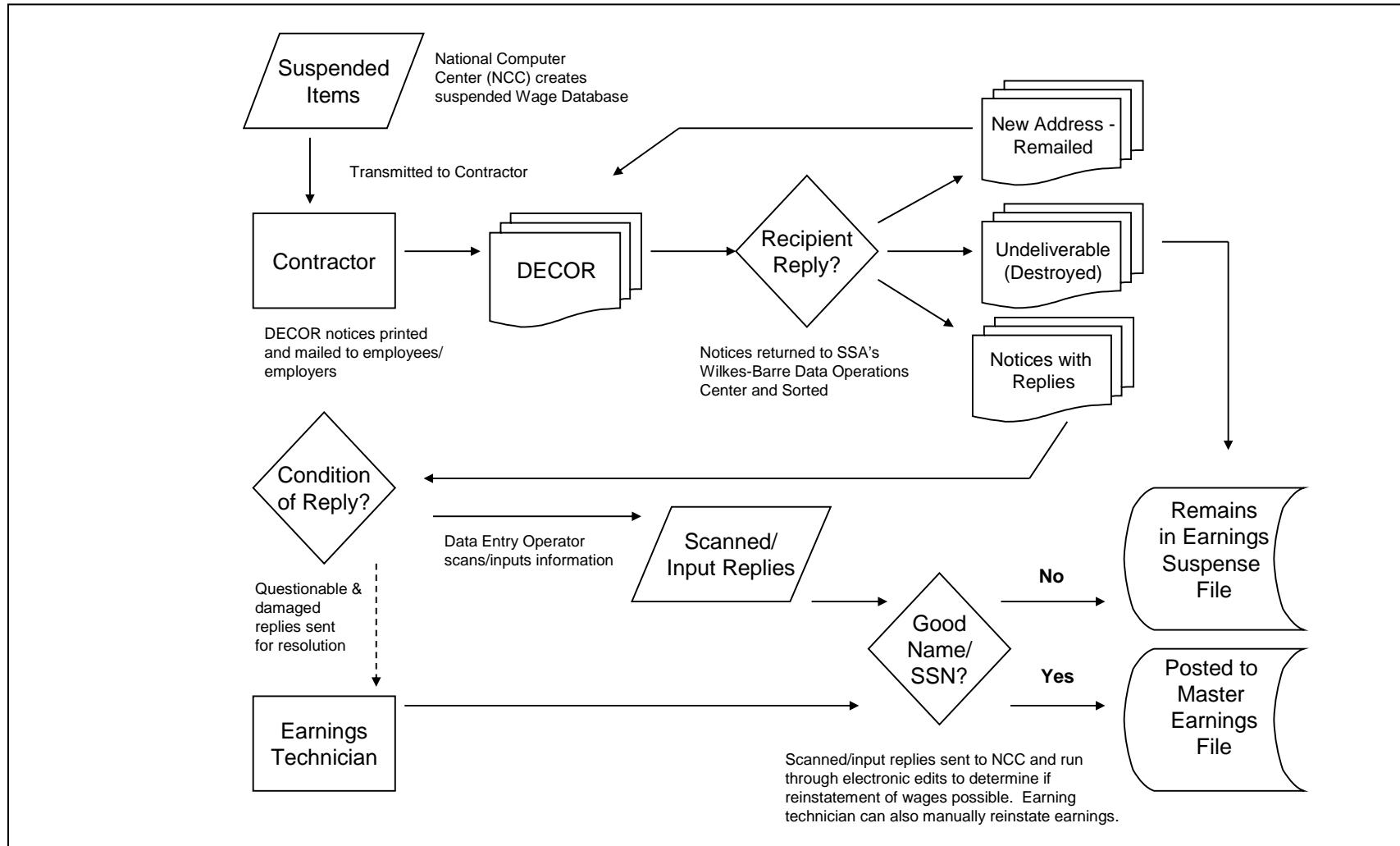
Appendices

Appendix A

Acronyms

CY	Calendar Year
DECOR	Decentralized Correspondence
EDCOR	Educational Correspondence
EIN	Employer Identification Number
ESF	Earnings Suspense File
ESLO	Employer Service Liaison Officer
IRS	Internal Revenue Service
MEF	Master Earnings File
OIG	Office of the Inspector General
SSA	Social Security Administration
SSN	Social Security Number
SSNVS	Social Security Number Verification System
TY	Tax Year
U.S.C.	United States Code
WRPS	Wage Reporting Problem Service
<u>Forms</u>	
Form W-2	<i>Wage and Tax Statement</i>

Decentralized Correspondence Flowchart



Scope and Methodology

To meet our objective, we performed the following steps:

- Reviewed prior Social Security Administration (SSA) Office of the Inspector General reports related to the Earnings Suspense File (ESF) and inaccurate wage reporting.
- Reviewed applicable Federal laws and regulations, as well as SSA policies and procedures for maintaining individual earnings records and contacting employers with suspended wages.
- Visited the Wilkes-Barre Data Operations Center to perform a walk-through of the Decentralized Correspondence (DECOR) process and review available workload data to determine the overall effectiveness of the DECOR process. We also interviewed SSA staff during the walk-through process to gain a further understanding of the DECOR process.
- Obtained a copy of the DECOR mailer file from SSA related to wage reports submitted during the Tax Year (TY) 2002 reporting period.¹ This file contained 9,529,889 wage items, with a corresponding value of \$60.4 billion dollars.²
- Analyzed the DECOR file to understand the trends among letters going to employees and employers. For example, we reviewed the employee file to (1) rank the States in terms of the volume of items in the file, (2) identify duplicate addresses and multiple uses of the same SSNs, and (3) determine where employees for specific employers actually resided.
- We obtained State workforce data from SSA's website, compared this workforce data with other sources, and discussed the reliability of these numbers with SSA staff.
- Obtained copies of *Wage and Tax Statements* (Form W-2) from SSA's Office of Central Operations to determine employee addresses for wage items that were not part of our TY 2002 DECOR employee file.

¹ Although the majority of the DECOR file related to TY 2002 wages, some wages related to earlier tax years were also reported to SSA during the same period and placed in this file. However, for the purposes of this report, we are referring to the DECOR file as a TY 2002 file.

² Earnings items identified as self-employment income for TY 2002 were not included in this population since self-employment data were contained in a separate file.

We found that DECOR data was sufficiently reliable to meet the objectives of our review. Our work was conducted at SSA's Data Operations Center in Wilkes-Barre, Pennsylvania and at SSA Headquarters in Baltimore, Maryland. The fieldwork was conducted between July 2004 and April 2005. The SSA entity responsible for the maintenance of the ESF is the Office of Central Operations within the Office of the Deputy Commissioner of Operations. Our review was conducted in accordance with generally accepted government auditing standards.

Ranking of States by Suspended Wage Items and State Workforce

**Table D-1: Comparison of States Ranking
of Suspended Wages Items and National Workforce
(Based on a Review of the Tax Year 2002 DECOR Employee File)**

<i>States and District of Columbia⁽¹⁾</i>	<i>Ranking in Terms of Wage Items</i>	<i>Percent of DECOR Notices</i>	<i>Ranking in Terms of State Workforce⁽²⁾</i>	<i>Percent of the National Workforce</i>
CALIFORNIA	1	29.66	1	11.01
TEXAS	2	9.64	2	6.97
FLORIDA	3	6.80	4	5.68
ILLINOIS	4	6.18	6	4.33
NEW JERSEY	5	3.99	9	3.14
NEW YORK	6	3.40	3	6.55
ARIZONA	7	3.35	21	1.77
NORTH CAROLINA	8	3.24	10	2.96
WASHINGTON	9	3.19	15	2.17
GEORGIA	10	3.00	11	2.95
COLORADO	11	2.45	22	1.59
OREGON	12	1.92	28	1.25
MASSACHUSETTS	13	1.85	13	2.27
VIRGINIA	14	1.73	12	2.73
NEVADA	15	1.40	35	0.73
INDIANA	16	1.25	14	2.30
TENNESSEE	17	1.21	17	2.07
MICHIGAN	18	1.19	8	3.65
MINNESOTA	19	1.13	20	1.99
MARYLAND	20	1.04	19	2.05
UTAH	21	1.00	34	0.80
SOUTH CAROLINA	22	0.99	24	1.43
WISCONSIN	23	0.94	16	2.12
PENNSYLVANIA	24	0.90	5	4.44
OHIO	25	0.87	7	3.95
CONNECTICUT	26	0.83	27	1.29
OKLAHOMA	27	0.82	29	1.20
KANSAS	28	0.72	31	1.03
ALABAMA	29	0.66	23	1.49
MISSOURI	30	0.57	18	2.04
KENTUCKY	31	0.51	25	1.41

<i>States⁽¹⁾</i>	<i>Ranking in Terms of Wage Items</i>	<i>Percent of DECOR Notices</i>	<i>Ranking in Terms of State Workforce⁽²⁾</i>	<i>Percent of the National Workforce</i>
NEW MEXICO	32	0.47	37	0.60
IDAHO	33	0.45	41	0.47
ARKANSAS	34	0.36	32	0.92
RHODE ISLAND	35	0.34	43	0.40
MISSISSIPPI	36	0.30	33	0.92
IOWA	37	0.28	30	1.12
NEBRASKA	38	0.27	36	0.67
LOUISIANA	39	0.27	26	1.40
DELAWARE	40	0.18	45	0.32
DISTRICT OF COLUMBIA	41	0.16	49	0.24
NEW HAMPSHIRE	42	0.14	39	0.51
WYOMING	43	0.07	51	0.20
WEST VIRGINIA	44	0.05	38	0.58
HAWAII	45	0.05	42	0.45
MAINE	46	0.04	40	0.48
ALASKA	47	0.04	50	0.24
MONTANA	48	0.04	44	0.34
SOUTH DAKOTA	49	0.03	46	0.30
VERMONT	50	0.02	47	0.25
NORTH DAKOTA	51	0.02	48	0.24
Totals⁽³⁾		100.0%		100.0%

Notes: (1) Our analysis does not include DECOR letters sent to Guam, Puerto Rico, American Samoa, Virgin Islands, Marshall Islands, and overseas addresses related to the Armed Forces. A total of 4,397 letters related to these locations.

(2) State workforce statistics were taken from *State Statistics*, Office of Policy, SSA, December 2003, http://mwww.ba.ssa.gov/policy/docs/quickfacts/state_stats/.

(3) Percentages may not add to 100 percent due to rounding.

Prior OIG Report Ranking of States by Total Suspended Wage Items

In prior Office of the Inspector General (OIG) reports¹ we identified the 100 employers responsible for sending the most wage items to the Earnings Suspense File (ESF) during specific Tax Years (TY). We also identified the States represented by these employers, noting that this State address may relate more to payroll issues than the physical location where an employer does most of its business (see Table E-1). For example, in our October 2004 audit covering TYs 1997 to 2001, we stated that 54 of the 100 employers had registered addresses in 3 States – California, Texas, and Illinois – representing almost 1.5 million wage items and over \$4.8 billion in wages during TYs 1997 to 2001. California, with 25 employers, had the highest number of Top 100 employers.

Table E-1: Ranking of States in Terms of Top 100 Employers and Total Suspended Wage Items

State	Employers Per State	Ranking By Items	Total Suspended Wage Items	Total Suspended Wages
CALIFORNIA	25	1	682,506	\$1,992,526,035
TEXAS	15	2	401,167	\$1,693,153,169
ILLINOIS	14	3	376,731	\$1,177,333,106
FLORIDA	4	4	165,594	\$420,648,214
NEW YORK	2	5	102,601	\$536,922,065
KENTUCKY	3	6	100,452	\$360,311,159
OHIO	4	7	90,780	\$323,966,821
GEORGIA	3	8	84,025	\$352,544,591
MINNESOTA	3	9	83,835	\$362,464,910
MICHIGAN	2	10	81,439	\$286,958,774
NEW JERSEY	3	11	77,993	\$169,914,341
SOUTH CAROLINA	2	12	68,731	\$285,456,146
OKLAHOMA	1	13	43,375	\$117,983,189
TENNESSEE	2	14	41,282	\$176,646,164
NEW MEXICO	1	15	36,455	\$147,551,907

¹ SSA OIG, *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items* (A-03-98-31009), September 1999; *Follow-Up Review of Employers with the Most Suspended Wage Items* (A-03-03-13026), October 2003; and *Employers with the Most Suspended Wage Items in the 5-Year Period 1997 through 2001* (A-03-03-13048), October 2004.

State	Employers Per State	Ranking By Items	Total Suspended Wage Items	Total Suspended Wages
KANSAS	2	16	35,130	\$161,259,665
WISCONSIN	2	17	34,575	\$118,018,390
WASHINGTON	2	18	31,651	\$92,689,767
ARIZONA	2	19	29,867	\$47,460,216
LOUISIANA	1	20	25,175	\$92,689,698
UTAH	1	21	24,827	\$67,498,582
ARKANSAS	1	22	24,780	\$92,649,911
NEBRASKA	1	23	18,852	\$197,524,222
IOWA	1	24	18,311	\$112,317,486
OREGON	1	25	18,228	\$68,088,754
COLORADO	1	26	15,162	\$65,223,596
NORTH CAROLINA	1	27	14,838	\$51,128,279
TOTALS	100		2,728,362	\$9,570,929,156

Additional Analysis on the Decentralized Correspondence Employer File

We performed further analysis of the Decentralized Correspondence (DECOR) employer file to identify any problematic trends among the employers. In particular, we wanted to determine the volume of DECOR letters going to individual employers.

VOLUME OF NOTICES MAILED TO INDIVIDUAL EMPLOYERS

We reviewed 5,164 employers listed in the DECOR employer file that had 200 or more items combined in both the Employer and Employee DECOR files. Our review indicates that some employers have a significant volume of wage items with an incomplete/incorrect address. As a result, the Social Security Administration (SSA) has mailed individual employers thousands of pieces of mail. For example, SSA mailed 95 employers more than 1,000 letters each (see Table F-1). One employer, a staffing company with a payroll address in the State of New York, received 13,954 letters from SSA.¹

**Table F-1: Volume of DECOR Letters Mailed to Employers
(Among Employers with 200 or More Items in Suspense and
at Least 1 Item in the DECOR Employer File)**

Number of DECOR Letters Per Employer	Number of Employers	Total Number of DECOR Letters Mailed	Associated Wages
Greater than 1,001	95	184,876	\$770 million
501 up to 1,000	204	138,357	510 million
101 up to 500	1,411	300,664	1,150 million
1 to 100	3,454	153,322	797 million
Total	5,164	777,219	\$3,227 million

While the percent of employers receiving a large volume of letters is small, these employers represent a large number of the letters being mailed. Furthermore, these incorrect addresses also represent a missed opportunity to contact wage earners.

¹ We contacted the Employer Service Liaison Officer for Region II (New York) and determined that this employer is currently participating in the Social Security Number Verification System (SSNVS) program. SSNVS is an on-line service that enables employers and submitters to verify employee names and SSNs with information in SSA's records for the W-2 reporting purposes. SSNVS was first piloted in March 2003 and was made available to the entire nation in June 2005.

DOUBLE NOTIFICATION OF SUSPENDED WAGE ITEMS

In addition to the DECOR letters, SSA also sends educational correspondence (EDCOR) to employers who submit W-2s containing name and/or Social Security number (SSN) information that does not agree with SSA's records. EDCOR notices list up to 500 SSNs but do not provide names. SSA requests that employers file corrected W-2(s) to correct the error(s). As a result, employers may receive both DECOR and EDCOR letters from SSA. Criteria for sending these notices are shown in Table F-2.

Table F-2: SSA's Criteria for Sending EDCOR Notices

2003 and later years <small>(Tax Year 2002 and later)</small>	Notices were sent to employers who submitted a wage report containing more than 10 W-2s that SSA could not process, and the mismatched forms represented more than .5 percent of the total W-2s in the report.
2002 <small>(Tax Year 2001)</small>	Notices were sent to employers who submitted a wage report where the name and/or SSN on even one W-2 did not agree with SSA's records. (The decision to send a letter to every employer with even one "no match" was made in May 2000.)
2001 and prior years <small>(Tax Year 2000 and prior)</small>	Notices were sent to employers who submitted a wage report containing more than 10 W-2s that SSA could not process, and the mismatched forms represented more than 10 percent of the total W-2s in the report.

We identified the 10 employers who received the highest volume of notices related to the entire TY 2002 DECOR file and found that all 10 would have also received an EDCOR notice from SSA. As a result, the staffing company we mentioned earlier would receive 13,955 letters from SSA – 13,954 DECOR notices and 1 EDCOR notice.² Our July 2002 audit of the DECOR process recommended that SSA review methods for eliminating this duplication.³ We made this recommendation at a time when SSA was sending EDCOR notices to every employer, regardless of the number of wage items in suspense. SSA has since restricted its EDCOR notices to a specific threshold (as shown in Table F-2). Nonetheless, our current review still indicates that an opportunity may exist to reduce some of the duplication.

² The EDCOR notice would only disclose 500 specific SSNs with no additional identifying information. However, SSA does have the ability to provide all of the data related to the suspended wages if the employer contacts the local Employer Service Liaison Officer.

³ SSA OIG, *Effectiveness of the Social Security Administration's Decentralized Correspondence Process* (A-03-01-11034), July 2002.

Appendix G

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: September 23, 2005

Refer To: S1J-3

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

From: Larry W. Dye /s/
Chief of Staff

Subject: Office of the Inspector General (OIG) Draft Report, "Usefulness of Decentralized Correspondence in Focusing Employer-Assistance Activities" Revised Agency Response (A-03-05-25007)--INFORMATION

We appreciate OIG's concern related to our previous comments to the subject report. We have reevaluated our response and have attached our revised comments on the draft report's recommendations. Please disregard our previous response.

Please let me know if you have any questions. Staff inquiries may be directed to Candace Skurnik, Director, Audit Management and Liaison Staff, at extension 54636.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL'S (OIG) DRAFT REPORT, "USEFULNESS OF DECENTRALIZED CORRESPONDENCE (DECOR) IN FOCUSING EMPLOYER-ASSISTANCE ACTIVITIES" (A-03-05-25007)

Thank you for the opportunity to review and provide comments on this draft report. The Social Security Administration (SSA) shares OIG's concern about wage reports with name/Social Security number (SSN) mismatches. The SSA Employer Services Liaison Officers (ESLO) perform an important service educating the employer community to improve the wage reporting process.

While SSA has the ESLOs contact employers who have 100 items or more in suspense each tax year, SSA does not have any enforcement or sanction authority to apply against those employers. This authority resides with the Internal Revenue Service (IRS). We defer to the IRS with regard to the effectiveness of employer sanctions.

Additionally, concerning the finding of incomplete or outdated addresses for employees, the report should note that the Agency only has the ability to send DECOR notices to the address that is provided by the employer via the wage and tax statement (Form W-2).

Recommendation 1

Consider using addresses in the DECOR employee file to enhance coordination among ESLOs when the employer wage reporting problems relate to multiple regions around the country.

Comment

We agree to consider using addresses in the DECOR employee file as a means to enhance coordination among ESLOs when employer wage reporting problems relate to multiple regions around the country. While the DECOR addresses point to common geographic areas that are a work source for those mismatched individuals, the wage reporting problem, and the employer's responsibility set by IRS for accurate wage reporting, rests at the location that administers employee intake procedures and payroll, regardless of where the employee resides. Coordination among ESLOs has been in place to provide support in determining the wage reporting administrative location of an employer.

To assist the ESLOs in coordinating employer wage reporting problems, SSA implemented the Wage Reporting Problem Service (WRPS) nationally in 2003. The WRPS coordinates the efforts of ESLOs in reporting and resolving wage reporting problems throughout the country. If an employer in a particular State has a wage reporting problem for a given year, that information is captured on the WRPS and is available for ESLOs in all SSA regions to view for status. ESLOs also have the ability of transferring employer wage problems to another ESLO whose region has jurisdiction of that employer. The WRPS accepts referrals of potential wage reporting problems from SSA employees in the SSA field offices, teleservice centers, processing service centers, and regional offices. WRPS sends the referral to the ESLO in the regional office that services the postal zip code of that employer.

DECOR is a national effort rather than a geographically-based effort. Employers are advised to contact the ESLO parallel to their payroll/tax or human resource office(s) for assistance with

DECOR and, in addition, to learn how to verify employee taxpayer identification information (name and SSN) to prevent suspense items. The example cited on page 3 of the draft report of the Dallas contact where the employees worked in California but the employer is headquartered in Texas, occurs commonly in all regions. Large corporations do not confine themselves to SSA's regional boundaries; however, the place where the employee worked is not material when mailing DECOR notices.

Recommendation 2

Consider using addresses in the DECOR employee file to identify relevant trends among employees with suspended wages and focus ESLO efforts.

Comment

We agree to consider using addresses in the DECOR employee file as means to identify trends among employees and employers. Employee address information in itself will not help focus ESLO outreach efforts since the appropriate contact is with the employer who submits the wage reports. A more effective approach is ESLO review of the Earnings Suspense File to identify employers who have reporting problems that need to be addressed. ESLO experience has been that educational outreach is not a strong motivator for change with employers who have found their current wage reporting methods meet their needs without fear of any retribution.

Additionally, the DECOR file currently does not provide the functionality required to support the recommended analysis. Implementation of this recommendation will likely require the development of data mining and analytical tools to provide trend analyses to the ESLOs. This would require a new initiative to be considered in conjunction with other wage-related software development initiatives and prioritized for submission to the Agency's Information Advisory Board accordingly.

In the meantime, the ESLOs will continue to work with problem reporters, promoting the use of existing tools including Electronic Wage Reporting, AccuWage and Social Security Number Verification Service to facilitate improved reporting.

Recommendation 3

Review and correct the earnings record of the child noted in this report, as well as the earnings records related to the remaining 10 valid SSNs misused more than 400 times.

Comment

We agree. We are taking the necessary corrective actions on the records with problems identified by OIG.

[SSA also provided a technical comment which has been addressed, where appropriate, in this report.]

Appendix H

OIG Contacts and Staff Acknowledgments

OIG Contacts

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

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

Acknowledgments

In addition to those named above:

Frank Trzaska, Auditor-in-Charge

Rich Devers, Information Technology Specialist

Annette DeRito, Writer/Editor

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