

Report Summary

Social Security Administration Office of the Inspector General

June 2009



Objective

To assess the effectiveness of the Social Security Administration (SSA) and Internal Revenue Service's (IRS) reconciliation process in correcting SSA's earnings records.

Background

SSA and IRS records are compared annually in a process known as Annual Wage Reporting reconciliation. Each quarter, employers are required to report to the IRS the total wages paid using the *Employer's Quarterly Federal Tax Return* (Form 941). Employers are also required to report wages annually to SSA via *Wage and Tax Statements* (Form W-2) and the *Transmittal of Income Tax Statements* (Form W-3). SSA compares the Form 941 totals to the totals of the Forms W-2 and identifies those employers whose (1) totals match, (2) IRS totals exceed SSA totals, and (3) SSA totals exceed IRS totals.

To view the full report, visit
<http://www.ssa.gov/oig/ADO/BEPDF/A-03-08-18069.pdf>

The Social Security Administration's Wage Reconciliation Process with the Internal Revenue Service (A-03-08-18069)

Our Findings

For Tax Year 2005, SSA could not resolve the reconciliation difference for 49 percent of its reconciliation cases, which led to 248,000 employers underreporting about \$31 billion in *Federal Insurance Contributions Act* (FICA) wages and tips and \$38 billion in Medicare wages. Among the 248,000 employers, we determined that (i) 155,000 employers did not report any wages to SSA but had reported to the IRS about \$8.4 billion in FICA wages and tips and \$9 billion in Medicare wages and (ii) 2,081 employers underreported \$18.4 billion of the \$31 billion in FICA wages.

These underreported wages could potentially relate to thousands of employees who did not receive credit for their wages. If these employees do not receive proper credit for their wages in SSA's records, their rights to future Social Security benefits or their benefit amount may be affected.

Furthermore, SSA failed to notify 32,000 employers about internal wage adjustments that contributed to employers underreporting about \$28 billion in FICA wages to both SSA and the IRS.

Our Recommendations

Among our five recommendations, we recommend that SSA:

1. Continue to work with the IRS to provide current address information for employers.
2. Evaluate the feasibility of informing employers electronically about reconciliation discrepancies to minimize the number of reconciliation notices that are returned as undeliverable as well as the number of non-responses.
3. Establish a process to inform employers about internal wage adjustments that will affect an employer's reconciliation balance.

SSA agreed with the recommendations.