
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**TAX INFORMATION RELATED
TO THE SOCIAL SECURITY
ADMINISTRATION'S CONTRACTORS**

September 2005

A-03-05-25010

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



SOCIAL SECURITY

MEMORANDUM

Date: September 23, 2005 **Refer To:**

To: The Commissioner

From: Inspector General

Subject: Tax Information Related to the Social Security Administration's Contractors
(A-03-05-25010)

OBJECTIVE

Our objectives were to determine whether (1) the Social Security Administration (SSA) is adequately screening contractors during the pre-award and registration process and (2) Agency contractors are appropriately paying payroll taxes.

BACKGROUND

As of August 2004, SSA had about 4,600 active contracts worth more than \$1.4 billion.¹ These contracts were awarded to 3,097 contractors who provided a variety of goods and services including medical, worker rehabilitation, consulting, auditing, and verification services.

Table 1: SSA Active Contracts (as of August 2004)

Contract Amount Greater Than	Contract Amount Less Than or Equal to	Number of Contracts	Percentage of Total Contracts	Total Award Obligation
\$ 0	\$ 10,000	3,006	65.2%	\$ 4 M
10,000	50,000	611	13.3%	15 M
50,000	100,000	350	7.6%	26 M
100,000	500,000	426	9.3%	98 M
500,000	1 M	66	1.4%	45 M
1 M	10 M	119	2.6%	369 M
10 M	25 M	20	0.4%	320 M
25 M	250 M	9	0.2%	548 M
Totals		4,607	100.0%	\$1,425 M

¹ These numbers represent all contracts awarded by SSA, with the exception of some micro-purchases made by regional contracting officers who are not required to enter micro-purchases into the Office of Acquisition and Grant's database. The total includes original contract awards as well as modifications, delivery orders, blanket purchase agreements, task orders, and some micro-purchases.

In October 2003, the Federal Acquisition Regulations (FAR) made it a requirement for all contractors doing business with any Federal agency to register in the Department of Defense's (DoD) Central Contractor Registration (CCR) database, with a few exceptions.² The objectives of the CCR database are to: (1) increase visibility of contractor sources (including their geographical locations) for specific supplies and services and (2) establish a common source for Government contractor data.³ The CCR collects, validates, stores, and disseminates data in support of an agency's acquisition mission.

Our audit focused on active SSA contracts as of August 2004. Specifically, we reviewed and assessed SSA procedures for determining whether its contractors were complying with the FAR as it relates to CCR registration and providing tax-related information. Further, to determine if SSA contractors were appropriately paying their payroll taxes, we assessed whether the contractors reported the correct amount of Social Security wages to SSA and the Internal Revenue Service (IRS). We provide information on our scope and methodology in Appendix C. The entities audited were SSA's Office of Acquisition and Grants (OAG) and Office of Financial Policy and Operations (OFPO) under the Deputy Commissioner for Finance, Assessment and Management (DCFAM). We conducted our audit in Baltimore, Maryland between June 2004 and April 2005 in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

Our review found that some SSA contractors were not registered in CCR. Specifically, we found that 19 of 100 sample contractors were not registered in the CCR as required. In four of these cases, SSA awarded new contracts without ensuring the contractors were registered. Further, we found that contractors' Tax Identification Numbers (TIN)⁴ included in SSA's acquisition database were not accurate. Specifically, we found that as many as 5 percent of the TINs were either invalid or could not be validated in SSA records. Finally, while we found discrepancies with contractors reporting payroll data to SSA and the IRS, we were not able to confirm if these contractors were tax delinquent due to the restrictions of the Internal Revenue Code, which prevents the disclosure of certain tax-related information.

² 48 Code of Federal Regulations (C.F.R.) Subpart 4.11—*Central Contractor Registration*. See Appendix B for more background information on the CCR requirement.

³ Id. Contractor data includes basic information relevant to procurement and financial transactions such as contractor name, address, points of contact, electronic payment information, and tax identification number. Complete guidance on the registration process may be found at www.ccr.gov.

⁴ A TIN is an Employer Identification Number (EIN) issued by the IRS or a Social Security number (SSN) issued by SSA.

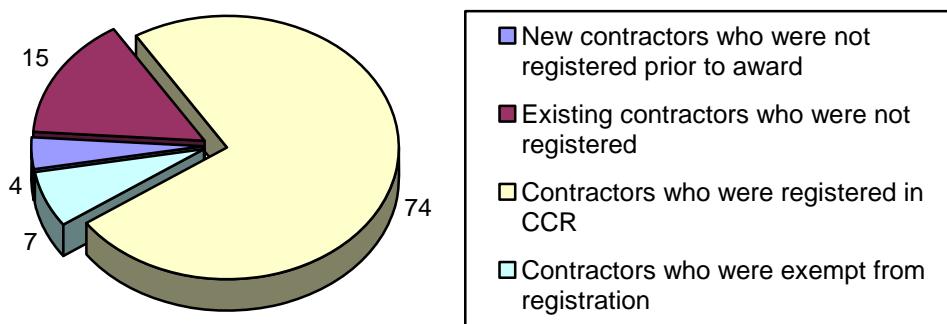
CENTRAL CONTRACTOR REGISTRATION

In our review of 100 sample SSA contractors, we identified 19 contractors who were not registered in the CCR database.⁵ In four of these cases, SSA awarded new contracts prior to verifying that the contractors were registered. Of the remaining 81 contractors, 74 were registered in CCR and 7 were exempt from registration.

In the 1990s, DoD established the CCR database to be a single repository of contractor financial and procurement data for the entire DoD to avoid administrative duplication and allow contractors to take responsibility for the accuracy of their own important business information by supplying it directly to the Government through a single registration process.⁶ In October 2003, the FAR made it a requirement for all potential Government contractors to register in the CCR database to be awarded contracts by the Federal Government.⁷ Further, it required that existing Government contractors—with awards prior to October 1, 2003—register, if their period of performance extended beyond December 31, 2003.

Of the 19 contractors that had not registered in the CCR database as appropriate,⁸ 4 were new contractors and 15 were existing contractors (see Figure 1).

**Figure 1: Registration of SSA Contractors in CCR
100 Contractors**



⁵ We determined that a contractor was registered by searching the CCR database using either the full/partial contractor name provided or the Data Universal Numbering System (DUNS), a 9-digit number assigned by the marketing company Dun & Bradstreet to identify unique business entities.

⁶ Government Accountability Office (GAO), *Financial Management: Some DOD Contractors Abuse the Federal Tax System with Little Consequence*, GAO-04-95, February 2004.

⁷ Contractors are required to complete a one-time registration to provide basic information relevant to procurement and financial transactions to include contractor name, address, points of contact, electronic payment information, and TIN. Further, contractors must update or renew their registration annually to maintain an active status. See 68 Fed. Reg. 56669 (October 1, 2003).

⁸ Although OAG later modified the application of CCR requirements for most of these 19 contracts (see Appendix B), the CCR registration requirements were in place for the 19 contracts during the period under review.

New Contractors Not Registered

Between December 2003 and January 2004, SSA awarded contracts to four contractors totaling about \$60,000 without verifying that the contractors were registered in CCR prior to the award. As of January 2005, three of these contractors still did not appear to be registered. The one remaining contractor registered approximately 7 months after SSA awarded it the contract. According to the FAR, if potential contractors are not registered in CCR “at the time of the award,” contracting officials are to: (1) delay the award until the contractors are registered or (2) if a delay is not permissible, award the contracts to the next successful registered offerors.⁹ We could not determine if SSA had taken any of these actions for these four contracts. Further, for one of the four contracts, SSA contracting officials failed to include the CCR registration provisions in the contract as required under the FAR.¹⁰ Consequently, the contractor was not officially notified about the registration requirement. For the remaining three contracts, the CCR provisions were included in the contracts.

Existing Contractors Not Registered

We found that 15 existing contractors with awards totaling about \$63,000 were not registered in CCR, although SSA had modified the contracts to include the CCR provisions. As of January 2004, SSA modified 14 of the 15 contracts to include the CCR provisions that required the contractors to be registered in CCR by December 31, 2003 and to maintain registration until final payment. They failed to include the CCR provision in the one remaining contract. We spoke to SSA contracting staff and they agreed that the 15 contractors did not appear to be registered in CCR, but stated the FAR does not require them to verify that “existing contractors” have registered. It only requires them to instruct contractors to register by modifying the contracts with the CCR provisions.¹¹

EXCLUDED PARTIES LIST SYSTEM

The General Services Administration maintains the Excluded Parties List System (EPLS), which identifies those parties throughout the U.S. Government that are debarred or suspended from receiving Federal contracts, certain subcontracts, and certain types of Federal financial and non-financial assistance and benefits. For example, a contractor may be debarred for a conviction of or civil judgment for fraud, embezzlement, theft, forgery, bribery, false statements, or other offenses indicating a lack of business integrity. Our review of the EPLS as of January 2005 revealed that none of the 3,097 SSA contractors were included on the list and therefore were eligible to receive a Government contract.

⁹ 48 C.F.R. Subpart 4.11—Central Contractor Registration, Section 4.1103—Procedures.

¹⁰ 48 C.F.R. Subpart 52.2—Text of Provisions and Clauses, Section 52.204-7—Central Contractor Registration.

¹¹ According to 48 C.F.R. Subpart 4.11—Central Contractor Registration, Section 4.1103—Procedures, contracting officers need not verify registration before placing an order or call, if the contract or agreement includes the clause.

TAX IDENTIFICATION NUMBERS

We found that as many as 147 (5 percent) of the 3,097 contractors' TINs included in the OAG's database¹² of active contracts were problematic as shown in Table 2. In addition, SSA was not using the information contained in the CCR database to locate the appropriate TINs or to make Electronic Fund Transfer (EFT) payments.

The TIN is a 9-digit number required by the IRS to be used by taxpayers in reporting tax-related information. The TIN may be either an EIN issued by IRS for businesses or an SSN issued by SSA to individuals. Contractors doing business with a Government agency are required to furnish their TINs to that agency as it may be used for the collection of debts owed the Government or reporting of certain contract and payment information to the IRS.¹³

Of the 147 TINs, we were unable to verify 95 because they were not included in SSA's systems as shown in Table 2. However, we were able to verify the remaining 52 TINs that contained transposed digits (29), more than 9 digits (19), or unusual numbers (4) and provided the valid TINs to OAG enabling it to update SSASy.

Table 2: Discrepancies with Contractors' Tax Identification Numbers

Discrepancies	Number of TINs	Obligated Amount
TINs could not be located in SSA's Employer Identification File (EIF) ¹	54	\$3,818,000
TINs were included in the EIF, but the associated name and address did not match OAG's database	41 ²	\$1,062,000
TINs with transposed digits	29 ³	\$15,559,000
TINs with more than 9 digits	19 ³	\$429,000
TINs contained unusual or consecutive numbers (e.g. 111222333)	4 ³	\$91,000
Total	147	\$20,959,000

Notes:

1. The EIF database contains the EINs issued by the IRS to employers along with their name and address. This file is updated monthly via the IRS Business Master File, which is a magnetic tape file containing information about taxpayers filing business returns and related documents. According to SSA officials, the EIF and the IRS Business Master File do not always match, which may explain why the contractors TINs were not included in the EIF.
2. We searched the EIF using the contractors' name, address, and TIN included in OAG's database. However, an entity assigned an EIN can use more than one name. The EIF does not display the names of all entities assigned each EIN.¹⁴
3. We provided the corrected TINs to SSA.

¹² SSA's Streamlined Acquisition System (SSASy) is the OAG database used for acquisition planning, requisitions, awards, and Acquisition Management Information reporting. SSASy includes, but is not limited to, contractor information such as contractor name, type of contract, type of award, TINs, DUNs, and amount of obligation.

¹³ 48 C.F.R Subpart 4.9—*Taxpayer Identification Number Information*.

¹⁴ SSA's POMS, GN 00502.118 *Verifying EIN*.

Although the OAG could not provide an explanation for most of these discrepancies, it appears some of these discrepancies occurred because of possible data entry errors and improper format of the data field used to capture the TINs. We spoke to OAG staff about the feasibility of modifying the SSASy database to capture only 9 digits for the contractor TINs and they agreed the modification was feasible and the cost, if any, would be minimal. Further, we believe these discrepancies may have been avoided if the TINs were verified using CCR.

Use of CCR to Verify Contractor TINs

Contracting staff could have used the CCR database as a tool to verify whether the TINs included in SSASy are valid.¹⁵ Currently, contracting staff search the public version of the CCR database to determine if contractors are registered, but this version does not include contractors' sensitive and proprietary data such as TINs and banking information. OAG staff stated that in the future they intend to interface SSASy with the CCR database, which would provide them with access to all contractor data—public, sensitive, and proprietary—included in CCR, but they could not tell us when this would occur.¹⁶ However, CCR does provide authorized Government officials read-only access to all contractor data via the internet. The Government officials need only complete an application to gain access, which CCR normally grants within 2 business days.

In addition to proper tax reporting, it is critical the OAG capture valid TINs in its database because TINs are used to determine if individuals or businesses owe a Federal debt. The OAG database is one of the sources used by OFPO to establish contractors' accounts within the Social Security Online Accounting and Reporting System (SSOARS) and to issue payments.¹⁷ OFPO transfers the payment information (e.g., name, banking information, and TINs) to the Department of Treasury's Financial Management Service (FMS), which is responsible for disbursing SSA's payments.¹⁸ As part of the disbursement process, FMS determines if the individual or business owes a Federal debt. FMS, which maintains a database of debts owed the Federal Government, compares the name and TIN on a Federal payment to information in its

¹⁵ GAO noted in a recent report that the IRS is developing a consent based TIN verification system that will require Federal contractors to validate their name and TINs as a condition of registering in the CCR. The IRS expects to implement the verification program in 2005. See *Financial Management: Thousands of Civilian Agency Contractors Abuse the Tax System with Little Consequence*, GAO-05-637, June 2005.

¹⁶ On August 18, 2005, SSA staff informed us this interface should occur in early Fiscal Year (FY) 2006.

¹⁷ OAG submits to OFPO an electronic file of the award documents that were released and approved. The file contains contractor data such as banking information as well as the TIN. OFPO enters this data into SSOARS, which is SSA's financial management system used to store obligation data, vendor identification data, and expenditure data in support of payment and general ledger accounting.

¹⁸ FMS is the primary disburser of payments to individuals and businesses on behalf of Federal agencies (e.g., benefit payments paid by SSA or the Department of Veterans Affairs; and payments to businesses for goods and services provided to the Federal Government).

database to determine if a match exists so the debt can be collected.¹⁹ The reporting of invalid TINs could impede debt-collecting efforts by FMS.

Electronic Funds Transfer Data

Currently, OFPO is not using contractors' EFT information included in the CCR database to issue electronic payments.²⁰ Federal agencies are encouraged to use the contractors' EFT data included in CCR as the single source for making contractor payments. Within SSA, contractors' EFT data is normally received by the contracting office during the solicitation phase of the contracting process and then forwarded to OFPO who enters the data into SSOARS to establish the obligation and make payments.²¹ CCR allows an agency to enter the data electronically into its payment system, thus eliminating the necessity for any manual intervention and prevent potential input errors. OFPO personnel stated that CCR data has not been integrated into its data system due to interface problems. However, they expect to have the issue resolved by the fourth quarter of 2005.

PAYROLL TAX INFORMATION

Current law does not prevent SSA from awarding contracts to contractors who are tax delinquent. The FAR appears to allow contracting officers the discretion to consider tax-related issues when determining whether a potential contractor is responsible. Specifically, contracting officers must determine if potential contractors have a satisfactory record of integrity and business ethics, which could involve tax delinquency.²²

To address this issue, GAO recommended the Office of Management and Budget (OMB) consider mechanisms to prohibit contract awards to contractors who failed to pay their taxes. In a February 2004 audit report,²³ GAO recommended OMB pursue policy options for prohibiting Federal contract awards to contractors in cases when abuse to the Federal tax system has occurred and tax owed is not contested. The report stated that options could include designating such tax abuse as a cause for governmentwide debarment and suspension or, if allowed by statute, authorizing IRS to declare such businesses and individuals ineligible for Government contracts. The intent of this recommendation was to help ensure that the Federal Government does not

¹⁹ Under the Debt Collection Improvement Act of 1996, Pub. L. No. 104-134, the Department of Treasury created the Treasury Offset Program to centralize the process by which certain Federal payments are withheld or reduced to collect delinquent nontax debts owed to Federal agencies. See Appendix D for a flowchart of the process.

²⁰ As noted in Appendix B, DCFAM issued a class deviation for the CCR requirements, which included using the CCR database as the source for EFT payment information. EFT data includes the name of the financial institution, the bank's routing number, and the company's account number.

²¹ Contractors are also required to include their TINs on invoices submitted for payment.

²² 48 C.F.R Subpart 9.1—*Responsible Prospective Contractors*.

²³ GAO found that DoD had awarded contracts to over 27,000 contractors, who owed about \$3 billion in unpaid taxes as of September 2002. See *Financial Management: Some DOD Contractors Abuse the Federal Tax System with Little Consequence*, GAO-04-95, February 2004.

award contracts to businesses and individuals that have flagrantly disregarded their Federal tax obligations (e.g. failed to remit payroll taxes).

We were not able to confirm with the IRS whether the 3,097 contractors were tax delinquent due to the limitations of Section 6103 of the Internal Revenue Code, which restricts the disclosure of certain tax-related information.²⁴ To gain a perspective of the potential problem, we reviewed the results of the SSA/IRS reconciliation process for the 3,097 contractors. This process can identify those employers who under/over-report the amount of Social Security wages to the IRS, which could result in an underpayment of payroll taxes.²⁵ Our review found that for Tax Year 2002, 172 (6 percent) of the 3,097 contractors reported Social Security wages to both SSA and IRS that did not agree. Specifically, 46 contractors reported approximately \$23 billion less in Social Security wages to IRS and 126 contractors reported approximately \$353 million less in Social Security wages to SSA. While SSA and IRS may resolve these wage reporting discrepancies through the reconciliation process, the discrepancies could indicate possible tax delinquency. We provide more details about these cases in Appendix E.

CONCLUSION AND RECOMMENDATIONS

Although we found the majority of SSA contractors were adhering to the requirements of the FAR as it relates to registering in CCR and providing the required tax information to SSA, we believe improvements are needed to ensure all contractors are compliant. Also, SSA needs to ensure it is accurately capturing contractors' information in its data systems. Although current law does not prevent SSA from awarding contracts to contractors who are tax delinquent, contracting officers can consider tax-related information, if available, to determine if potential contractors are responsible. Furthermore, we support GAO's recommendation that mechanisms be created to prohibit contract awards to contractors who failed to pay their taxes.

²⁴ While citing the Internal Revenue Code, 26 U.S.C. § 6103, IRS stated that their confidentiality statutes prevent the IRS from making public any records related to finalized tax delinquency cases and do not allow the disclosure of tax information unless there is an exception to the general rule of non-disclosure. This same provision specifically allows GAO to have access to this tax information (see 26 U.S.C. § 6103 (i)(8)(A). For example, in a June 2005 GAO audit report, *Financial Management: Thousands of Civilian Agency Contractors Abuse the Tax System with Little Consequence*, (GAO-05-637), GAO reported that 1 of 50 sample Federal contractors it reviewed involved a SSA contractor who failed to pay over \$400,000 in payroll taxes as of September 2004. Further, the report noted the contractor provided building maintenance services for SSA and received over \$330,000 in payments in FY 2004. GAO noted that the IRS assessed trust fund penalties against the officers of this company for willfully failing to remit payroll taxes.

²⁵ Each year, SSA compares its electronic records of processed *Wage and Tax Statement* (Form W-2) wage totals for each employer with IRS records of wage totals that each employer reported on *Employer's Quarterly Federal Tax Return* (Form 941), *Employer's Quarterly Tax Return for Household Employees* (Form 942) and *Employer's Annual Tax Return for Agricultural Employees* (Form 943).

We recommend SSA:

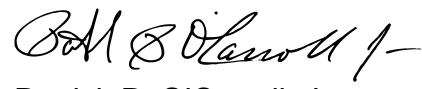
1. Ensure the FAR provision requiring contractors to register with CCR is included in all applicable contracts.
2. Ensure contracting officers verify that potential contractors are registered in the CCR database.
3. Encourage OAG staff to apply for read-only access to the CCR database provided to Government agencies. This access will provide the staff the ability to verify contractors' TIN as well as other contractor information.
4. Reformat OAG's database to restrict more than 9-digits from being entered as a TIN.

AGENCY COMMENTS

SSA agreed with recommendations 1 and 2, but disagreed with recommendations 3 and 4. In reference to recommendations 3 and 4, SSA stated that effective January 1, 2005, the process for submitting contractor TIN information changed. Contracting officers will no longer need to enter the contractors' TINs into SSASy because contractors can use a new on-line Representation and Certification program to certify that their TINs are included in the CCR database. Further, SSA stated that effective with the implementation of Federal Procurement Data System-Next Generation (FPDS-NG), the TIN field is no longer a data element and that FPDS-NG verifies whether Government contractors are registered in CCR. Finally, SSA stated they expect in early FY 2006 to complete their enhancement of SSASy to retrieve contractor data directly from the CCR database using the contractor supplied DUNS number. This will be a seamless connection to CCR through the contract management system, and it will provide access to all the information necessary to make a proper award. The full text of SSA's comments is included in Appendix F.

OIG RESPONSE

We appreciate the Agency's response to our recommendations as well as the assistance of SSA staff throughout this review. We agree that the new process for submitting and verifying contractor TINs should prevent the discrepancies noted in the report from occurring in the future providing SSA is able to obtain direct access to contractor data included in the CCR database. However, should the interface of SSASy and CCR be delayed, we believe SSA should consider implementing recommendations 3 and 4 as an interim measure.



Patrick P. O'Carroll, Jr.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Central Contractor Registration

[APPENDIX C](#) – Scope and Methodology

[APPENDIX D](#) – Flowchart of the Social Security Administration's Procurement Process

[APPENDIX E](#) – Payroll Tax Information

[APPENDIX F](#) – Agency Comments

[APPENDIX G](#) – OIG Contacts and Staff Acknowledgments

Acronyms

AIE	Integrated Acquisition Environment
CCR	Central Contractor Registration
C.F.R.	Code of Federal Regulations
CO	Contracting Officer
DoD	Department of Defense
DUNS	Data Universal Numbering System
EIF	Employer Identification File
EIN	Employer Identification Number
EPLS	Excluded Parties List System
FAR	Federal Acquisition Regulations
FPDS-NG	Federal Procurement Data System – Next Generation
FICA	Federal Insurance Contributions Act
FMS	Financial Management Service
FY	Fiscal Year
GAO	Government Accountability Office
IRS	Internal Revenue Service
OAG	Office of Acquisition and Grants
OFPO	Office of Financial Policy and Operations
OIG	Office of the Inspector General
OMB	Office of Management and Budget
POMS	Program Operations Manual System
SSA	Social Security Administration
SSASy	SSA's Streamlined Acquisition System
SSN	Social Security Number
SSOARS	Social Security Online Accounting and Reporting System
TIN	Tax Identification Number
U.S.C.	United States Code
Form SS-5	Application for a Social Security Number

Central Contractor Registration

In 1998, the Department of Defense (DoD) established the Central Contractor Registration (CCR) database. The CCR database was created to be the single repository of contractor data for the entire DoD to avoid administrative duplication and allow contractors to take responsibility for the accuracy of their own important business information by supplying it directly to the Government through a single registration. In the past, any vendor who wanted to do business with more than one DoD site was required to submit the same business information to each and every site. This redundancy of paperwork not only created an administrative burden for both the Government and the vendor, but also was a major source of administrative error and expense in terms of both time and money.

CONTRACTS COVERED BY CCR

In October 2003, the Federal Acquisition Regulations (FAR) made it a requirement for all potential contractors doing business with the Federal Government to register in CCR with the exception of:¹

- purchases that use a governmentwide commercial purchase card;
- classified contracts when registration in the CCR database or use of CCR information can compromise the safeguarding of classified information or national security;
- contracts issued by (1) deployed contracting officers in the course of military operations and (2) contracting officers in the conduct of emergency operations, such as responses to natural or environmental disasters or national or civil emergencies;
- contracts to support unusual or compelling needs;
- awards made to foreign contractors for work performed outside the United States, if it is impractical to obtain CCR registration; and
- micro-purchases that do not use the Electronic Funds Transfer (EFT) method for payment and are not required to be reported.

In addition, the FAR required contracting officials to modify existing contracts to (1) require contractors to register in CCR no later than December 31, 2003 and (2) inform contractors that the CCR will be the source of EFT account information.

CONTRACTOR REGISTRATION

To register for CCR, contractors are required to complete a 1-time registration to provide basic information relevant to procurement and financial transactions to include contractor name, address, points of contact, electronic payment information, and tax identification number. Further, contractors must update or renew their registration

¹ 48 C.F.R. Subpart 4.11—*Central Contracting Registration*.

annually to maintain an active status. CCR validates some contractor's information and electronically shares the secure and encrypted data with the Federal agencies' finance offices to facilitate paperless payments through EFT. Additionally, CCR shares the data with Government procurement and electronic business systems. As of March 2005, there were 355,478 active contractors registered in the CCR database.

SSA CONTRACT DEVIATIONS

In October 2003, the Deputy Commissioner for Finance, Assessment and Management issued a class deviation that allowed the Agency to deviate from the CCR requirements in its entirety due to conflicts with the implementation of the Agency's new financial accounting/payment system that was mandated by the Federal Financial Management Act.² However, the Office of Acquisition and Grants (OAG) later determined that is needed to implement some of the CCR requirements due to other Federal reporting requirements. Therefore, it issued a Flash Notice³ in November 2003 that (1) required all SSA contractors register in CCR unless exempt by FAR, and (2) exempt the Agency's use of the CCR database as the source for EFT payments. In February 2004, OAG reversed its decision about requiring Employee Network (EN)⁴ contractors to register in CCR citing that these contracts are exempt from CCR because (1) the contracts are not required to be reported in the Federal Procurement Data System and (2) SSA's Office of Finance does not process the submitted invoices. OAG determined that the class deviation in its entirety would apply to these types of contracts.

² This deviation was issued in accordance to 48 C.F.R. Subpart 1.4 – *Deviations from the FAR*, Section 1.404(a)(1) – *Class Deviations*.

³ Flash Notice 04:04-02, *Central Contractor Registration Implementation Information*.

⁴ The EN contracts are issued under the Ticket to Work Program, which is the centerpiece of the *Ticket to Work and Work Incentives Improvement Act of 1999*, Pub. L. No. 106-170. Under this program, SSA issues tickets to eligible beneficiaries who, in turn, may assign those tickets to an (EN) contractor of their choice to obtain employment services, vocational rehabilitation services, or other support services necessary to achieve a vocational goal. As the contractor produces a service, invoices and payment information are submitted to the SSA Program Office, who after certifying that it is appropriate, generates a payment schedule and submits it to the Treasury for payment.

Scope and Methodology

To meet our objectives we:

- Reviewed pertinent laws and regulations, as well as prior audits related to the Social Security Administration's (SSA) procurement process and the collecting of payroll taxes.
- Interviewed SSA staff to obtain an understanding of the contracting award process.
- Obtained a copy of the Office of Acquisition and Grants (OAG) database of all active SSA contracts as of August 2004. This list does not include some micro-purchases made by regional contracting officers who are not required to input the purchase information into the OAG database.
- Reviewed contract files for sample contractors and compared contractor data to the OAG database to determine if the database was reliable.
- Randomly selected 100 contractors to determine if they were registered in the Central Contractor Registration database. We started with a contractor population of 3,124. Additional audit work determined this population contained 27 duplicate contractors, adjusting our population to 3,097 contractors. We searched for the contractors using their full/partial name and their Data Universal Numbering System, which is a 9-digit number, assigned by the marketing company Dun & Bradstreet, to identify unique business entities.
- Reviewed the Excluded Parties List System to determine whether the 3,097 contractors were debarred or suspended from receiving Government contracts.
- Reviewed SSA's Employer Identification File (EIF),¹ Social Security Online Accounting and Reporting System (SSOARS),² and Numident³ database to verify contractors' Tax Identification Numbers.
- Obtained from the Office of Earnings, Enumeration, and Administrative Systems a listing that included the results of the SSA and IRS reconciliation process for the SSA contractors. The data was obtained by using the EINs included in the OAG database.

¹ The EIF database contains the Employee Identification Numbers (EIN) issued by the Internal Revenue Service (IRS) to employers along with their name and address. This file is updated monthly via the IRS Business Master File, which is a magnetic tape file containing information about taxpayers filing business returns and related documents.

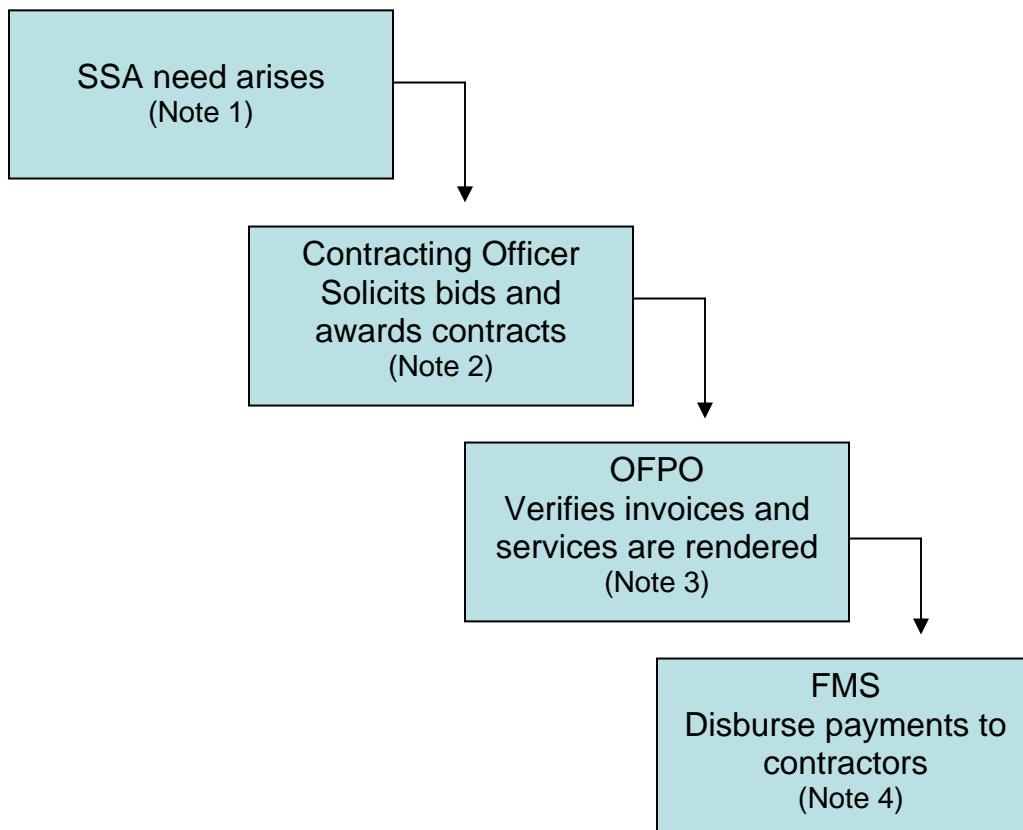
² SSOARS is SSA's financial management system used to store obligation data, vendor identification data, and expenditure data in support of payment and general ledger accounting.

³ The Numident is a record of identifying information (such as name, date of birth, date of death, mother's maiden name, etc.) provided by the applicant on his or her *Application for a Social Security Number* (Form SS-5) for an original Social Security number (SSN) and subsequent applications for replacement SSN cards. Each record is housed in the Numident Master File in SSN order.

- Sent a letter to IRS requesting confirmation as to whether SSA contractors were delinquent in paying their payroll taxes. While citing Internal Revenue Code, 26 U.S.C. § 6103, the IRS declined our request stating that that their confidentiality statutes prevent them from making public any records related to finalized tax delinquency cases and do not allow the disclosure of tax information unless there is an exception to the general rule of non-disclosure.

Appendix D

Flowchart of the Social Security Administration's Procurement Process



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1. The Office of Acquisition and Grants (OAG) is responsible for purchases over \$2,500 originating from a Headquarters office (Baltimore, Maryland; Washington D.C.; and Falls Church, Virginia). Regional offices also have their own contracting officers.
 2. OAG proceeds with the procurement, which includes verifying available funds, soliciting contractors, evaluating proposals, verifying the contractor is responsible and awarding contracts. The contracting officer considers factors such as: the financial resources available to the contractor; the contractor's history of integrity and business ethics; and the equipment and facilities that the contractor has at its disposal to complete performance under the contract.
 3. The Office of Financial Policy and Operations (OFPO) registers, examines, and verifies the invoice as being satisfied and issues an invoice certification to the Department of the Treasury's Financial Management Service (FMS). FMS makes payment using the contractor's bank information provided on the invoice certification. FMS also determines if the recipient of payment owes a debt to the Government. If there are any contractors with delinquent debts, the payment is offset by FMS.¹

¹ Under the *Debt Collection Improvement Act of 1996*, Pub. L. No. 104-134, the Department of Treasury created the Treasury Offset Program to centralize the process by which certain Federal payments are withheld or reduced to collect delinquent non-tax debts owed to Federal agencies.

Payroll Tax Information

Current law does not prevent the Social Security Administration (SSA) from awarding contracts to contractors who have failed to pay their payroll taxes to the Internal Revenue Service (IRS). To address this issue, in a February 2004 audit report,¹ the Government Accountability Office (GAO) recommended that the Office of Management and Budget develop and pursue policy options for prohibiting Federal contract awards to contractors in cases where abuse of the Federal tax system has occurred and tax owed is not contested. The report stated that such options could include designating such tax abuse as a cause for government-wide debarment and suspension or, if allowed by statute, authorizing IRS to declare such businesses and individuals ineligible for Government contracts. The intent of this recommendation was to help ensure that the Federal Government does not award contracts to businesses and individuals that have flagrantly disregarded their Federal tax obligations (e.g. failed to remit payroll taxes).

We were not able to confirm with the IRS whether SSA contractors had paid their appropriate payroll taxes² due to the limitations of section 6103 of the Internal Revenue Code, which restricts the disclosure of certain tax related information.³ To gain a perspective of the potential problem, we reviewed the SSA/IRS reconciliation process to determine whether SSA's contractors accurately reported the amount of Social Security wages to both agencies.⁴ The SSA/IRS process can identify cases where employers may have under/over-reported the amount of Federal Insurance Contributions Act (FICA) wages to the IRS, which could result in an under/overpayment of payroll taxes. Our review found that as of September 2004, 172 (6 percent) of the 3,097 contractors reported FICA wages to both agencies that did not agree for Tax Year 2002.⁵ Specifically, we found the following:

- For 46 contractors, the amount of wages reported to the IRS was less than the amount reported to SSA totaling about \$23 billion. These cases could represent

¹ GAO found that the Department of Defense (DoD) had awarded contracts to over 27,000 contractors, who owed about \$3 billion in unpaid taxes as of September 2002. See *Financial Management: Some DOD Contractors Abuse the Federal Tax System with Little Consequence*, GAO-04-95, February 2004.

² In a June 2005 GAO audit report, *Financial Management: Thousands of Civilian Agency Contractors Abuse the Tax System with Little Consequence*, (GAO-05-637), GAO reported that 1 of 50 sample Federal contractors it reviewed involved a SSA contractor who failed to pay over \$400,000 in payroll taxes as of September 2004. Further, the report noted the contractor provided building maintenance services for SSA and received over \$330,000 in payments in FY 2004. GAO noted that the IRS assessed trust fund penalties against the officers of this company for willfully failing to remit payroll taxes.

³ See 26 U.S.C. § 6103.

⁴ Each year, SSA compares its electronic records of processed *Wage and Tax Statement* (Form W-2) wage totals for each employer with IRS records of wage totals that each employer reported on *Employer's Quarterly Federal Tax Return* (Form 941), *Employer's Quarterly Tax Return for Household Employees* (Form 942) and *Employer's Annual Tax Return for Agricultural Employees* (Form 943).

⁵ The 172 cases represent contractors who had at least a \$1,000 difference in FICA wages reported to SSA and IRS.

circumstances where the contractors failed to pay the appropriate amount of FICA taxes to the IRS. Again, we were not able to confirm this fact with the IRS due to the restrictions of section 6103.⁶ It is also possible that these cases could represent wage reporting errors by the employers. For example, one contractor who represented \$22 billion (96 percent) of the \$23 billion difference in FICA wages submitted numerous wage reports to SSA to correct previous submissions.⁷ The latest corrected report was submitted in February 2005, nearly 2 years after it was due.⁸ According to SSA staff, this contractor was referred to IRS because SSA considers the contractor to be a high-profile employer who has had wage reporting problems in the past.

- For 126 contractors, the amount of wages reported to the IRS exceeded the amount reported to SSA totaling about \$353 million. SSA is concerned about these cases as they may represent missing W-2s or wage reports, which could affect employees' eligibility for receiving Social Security benefits. SSA referred the 126 contractors to the IRS because the contractors failed to respond to SSA's reconciliation correspondence used to help resolve discrepancies or to avoid the expiration of the statute of limitation for assessing penalties.⁹ The IRS can assess penalties against employers who fail to cooperate with SSA to resolve the wage reporting discrepancies.

⁶ While citing the Internal Revenue Code, 26 U.S.C. § 6103, IRS stated that their confidentiality statutes prevent the IRS from making public any records related to finalized tax delinquency cases and do not allow the disclosure of tax information unless there is an exception to the general rule of non-disclosure. This same provision specifically allows GAO to have access to this tax information (see 26 U.S.C. § 6103 (i)(8)(A)).

⁷ The contractor reported \$33 billion in FICA wages to SSA and \$11 billion to the IRS.

⁸ Employers are required to submit their wage report to SSA in March of the following tax year.

⁹ Per SSA's Program Operations Manual System, RM 02070.001 - SSA/IRS Reconciliation Process, the Office of Central Records Operations attempts to resolve the reconciliation cases by corresponding with the employer. Cases where the employer fails to respond to the notices are referred to IRS.

Appendix F

Agency Comments



SOCIAL SECURITY

MEMORANDUM

34140-24-1259

Date: September 7, 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, "Tax Information Related to the Social Security Administration's Contractors" (A-03-05-25010)--INFORMATION

We appreciate OIG's efforts in conducting this review. Our comments on the draft report's recommendations are attached.

Please let me know if you have any questions. Staff inquiries may be directed to Ms. 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, "TAX INFORMATION RELATED TO THE SOCIAL SECURITY ADMINISTRATION'S CONTRACTORS" (A-03-05-25010)

Thank you for the opportunity to review and provide comments on this draft report. The Agency supports the President's Management Agenda in the area of Electronic Government and specifically in the Integrated Acquisition Environment (IAE) initiative by using various tools and systems that support IAE, including Central Contractor Registration (CCR) and Federal Procurement Data System-Next Generation (FPDS-NG). Our effective implementation and use of these and various other IAE tools allows us to continuously improve our acquisition operations in headquarters and regional office contracting activities.

Recommendation 1

Ensure the Federal Acquisitions Regulations (FAR) provision requiring contractors to register with CCR is included in all applicable contracts.

Comment

We agree. We will continue our acquisition management review process which entails steps to ensure that the CCR provision is included in all applicable contracts along with a random review of contracts to ensure that proper awards are being made, and that they include all appropriate clauses. It should be noted that the fact that this review only found 1 contract out of 100 that did not have the required clause, indicates that this is not a widespread problem.

Recommendation 2

Ensure contracting officers (CO) verify that potential contractors are registered in the CCR database.

Comment

We agree. We feel this is an important step in evaluating a contract; however, we do not feel additional procedures are warranted from what is already required by the FAR and the Agency supplemental guidance. We will send a reminder to the COs reminding them about our current file documentation requirements that require the CO to indicate that the CCR database was checked as appropriate and that the contractor is registered. Also, a feature of FPDS-NG serves as a reminder to the CO that the award should not be made unless the contractor is registered. FPDS-NG checks the CCR database as the CO is completing the FPDS information. If the contractor is not registered in CCR, the CO receives a message to that fact, and the award will not pass the edit process. On the rare occasion that a CO overrides the FPDS-NG message, the Office of Acquisitions and Grants (OAG) FPDS-NG administrator contacts the CO to remind him/her to make sure the contractor registers in the CCR database. Sometimes the administrator contacts the contractor and requests that they complete the registration.

Recommendation 3

Encourage the OAG staff to apply for read-only access to the CCR database provided to Government agencies. This access will provide the staff the ability to verify contractors' Tax Identification Number (TIN) as well as other contractor information.

Comment

We disagree. Between the time the subject contracts were awarded and this audit was conducted, the process for submitting TIN information has changed. Prior to January 1, 2005 contractors submitted their TIN with their Representations and Certifications, and the CO entered this information in the SSA's Streamlined Acquisition System vendor file and in the Contractor TIN field in the "old" FPDS. Effective January 1, 2005, a new FAR regulation took effect allowing contractors to complete their Representation and Certifications on-line. Some information required by the Representations and Certifications is also required by CCR. The TIN is one such piece of information. Therefore, when a contractor completes its on-line Representations and Certifications, the contractor does not show the TIN, but cross-references that information to CCR. With this process, there is no TIN for the CO to verify, because the contractor has indicated that the TIN in the CCR is the contractor TIN.

Additionally, effective with the implementation of FPDS-NG, the TIN field is no longer a data element. COs do not enter this information into the FPDS-NG database. We are not aware of any other contractor information contained in the non-public CCR record that a CO would need in order to make a proper award.

In early fiscal year (FY) 2006, we will be enhancing our contract management system to dynamically retrieve contractor data directly from the CCR database using the contractor supplied Data Universal Numbering System (DUNS) – a 9 digit number assigned by the marketing company Dun & Bradstreet to identify unique business entities. This will be a seamless connection to CCR through the contract management system, and it will provide access to all of the information necessary to make a proper award.

Recommendation 4

Reformat OAG's database to restrict more than 9-digits from being entered as a TIN.

Comment

We disagree. As stated in our response to recommendation 3, in early FY 2006 we will be enhancing our contract management system using the contractor supplied DUNS to retrieve contractor data directly from the CCR database. The contractor data from the CCR will include the TIN, and we will no longer be manually entering the TIN.

[In addition to the comments above, SSA provided technical comments which have been addressed, where appropriate, in this report.]

Appendix G

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:

Damon Mahoner, Auditor-in-Charge

Annette DeRito, Writer/Editor

For additional copies of this report, please visit our web site at
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Office of Audit

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

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OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

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OEO supports OIG by providing information resource management and systems security. OEO also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OEO is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.