
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**FOLLOW-UP: THE SOCIAL SECURITY
ADMINISTRATION'S PROCESSING OF THE
INTERNAL REVENUE SERVICE'S
OVERSTATED WAGE REFERRALS**

June 2008

A-03-07-17067

AUDIT REPORT



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

Authority

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

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

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

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

Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: June 16, 2008

Refer To:

To: The Commissioner

From: Inspector General

Subject: Follow-up: The Social Security Administration's Processing of the Internal Revenue Service's Overstated Wage Referrals (A-03-07-17067)

OBJECTIVE

Our objectives were to determine whether the Social Security Administration (SSA) had (1) processed the Internal Revenue Service's (IRS) overstated wage referrals and (2) coordinated with the IRS to streamline or automate the referral process.

BACKGROUND

Each year, a number of workers contact the IRS to dispute earnings reported under their Social Security number (SSN) and the associated taxes. If the IRS concurs with the worker, it sends a referral to SSA stating the reported wages do not belong to the worker. The IRS does not collect Federal income tax from the worker on the disputed earnings and notifies SSA to correct its Master Earnings File (MEF)¹ record using information provided on the Form 9409 *IRS/SSA Wage Worksheet* (wage referral).² Upon receiving the wage referral, SSA uses the Item Correction 2.8 (ICOR) process in the Earnings Modernization system to remove the disputed earnings from the worker's earnings record.³

Our March 2003 report stated that, as of March 2002, the IRS had sent SSA approximately 12,000 disputed wage referrals for Tax Year (TY) 1999.⁴ We found that

¹ The MEF contains all earnings data reported by employers and self-employed individuals. The data are used to determine eligibility for, and the amount of, Social Security benefits.

² See Appendix B for a copy of Form 9409.

³ SSA uses the ICOR process to maintain accurate postings to individuals' earnings record. ICOR allows the Agency to add unposted earnings and change or delete posted earnings on workers' MEF records. ICOR also permits the movement of posted earnings to and from the Earnings Suspense File (ESF)—a repository of unmatched wage items.

⁴ *The Social Security Administration's Processing of Internal Revenue Service Overstated Wage Referrals* (A-03-02-22068), March 2003.

SSA had not processed these referrals to determine whether workers had overstated wages on the MEF. By not reviewing these IRS wage referrals, SSA was missing an opportunity to correct individual earnings records, prevent the misuse of SSNs, and reduce improper benefit payments. To correct the deficiencies, we recommended that SSA:

- Begin processing the backlogged IRS wage referrals, starting with the referrals that were most likely to (a) reduce overpayments, such as those related to individuals closer to retirement age, and (b) minimize identity theft, such as those with higher disputed wages over multiple TYs. The Agency agreed to develop a work plan to begin processing the workload considering their current budget/resource constraints.
- Work with the IRS to establish and implement procedures to process the wage referrals, which could include (a) the IRS obtaining sufficient information from the numberholder (NH) to allow SSA to remove the wages without additional development; (b) SSA requesting that future referrals be provided electronically to minimize handling at SSA; (c) the IRS requesting that the NH contact SSA to correct the wages; or (d) the IRS requesting that the employer send a corrected wage report to SSA. The Agency agreed to form a workgroup with the IRS to revisit the overall process and work with the IRS to implement processing improvements that streamline and/or automate wage referral workload.

RESULTS OF REVIEW

Overall, we found that SSA had an effective process in place for the receipt and disposition of the IRS wage referrals. Based on our review of sample referrals for TY 1999, we found the Agency had processed approximately 97 percent of the backlogged wage referrals identified in our prior report. Furthermore, we found SSA made significant improvements in processing its current workload of IRS wage referrals. The Agency processed about 89 percent of the wage referrals it received from the IRS during Fiscal Years (FY) 2005 and 2006. Moreover, the Agency had taken steps to streamline the wage referral process by (a) developing a tracking system for the receipt and disposition of the referrals; (b) establishing operating instructions for processing the wage referrals to ensure consistency; and (c) coordinating with the IRS to ensure the wage referrals included all relevant information necessary for processing.

Although SSA was effective in processing the wage referrals, we found it had not taken steps to remove other similar questionable wages that were posted to NHs' earnings records. We estimate that, for 2,940 (25 percent) of the 12,000 TY 1999 wage referrals, the NHs had approximately \$72.4 million in questionable wages still posted to their earnings record for TYs 1995 to 2005. Failure to remove these questionable wages could lead to the NHs qualifying for and/or receiving higher Social Security benefits than they would have otherwise received.

BACKLOGGED WAGE REFERRALS

To determine whether SSA had processed the backlogged wage referrals identified in our March 2003 report, we selected for review 200 wage referrals for TY 1999 representing approximately \$2 million in disputed wages. These wages were disclaimed by 197 NHs with the following characteristics as of 2007:

- the NHs ranged in age from 19 to 93 years old, with an average age of 42;
- about 54 percent of the NHs were U.S.-born citizens, while 46 percent were foreign-born;
- 5 of the NHs were deceased at the time of the review; and
- the NHs disputed wages ranging from \$15 to \$72,600, with an average of \$9,957.

Processed Wage Referrals

Based on our review of the 200 sample referrals, we found SSA processed 183 referrals (92 percent) by removing \$1.8 million in disputed wages from the NHs' earnings records and posting these wages to the ESF or transferring the wages to another person's record (see Figure 1). SSA removed the disputed wages in Calendar Years (CY) 2000 through 2006. Based on our sample results, we estimate that SSA processed approximately 10,982 of the 12,000 backlogged wage referrals representing approximately \$106 million in disputed wages. By removing these wages, SSA has decreased the risk the disputed wages will be used to calculate or increase individuals' Social Security benefits.

**Figure 1: Status of the 200 Sample Wage Referrals
TY 1999**

Status	Percentage
Posted to ESF or Transferred to Another Record	92%
No Action Required	5%
Did Not Process	3%

No Action Required for Wage Referrals

The Agency was unable to remove the disputed wages for 11 (5 percent) of the sample wage referrals representing about \$144,000 in wages because either the SSNs or the Employer Identification Numbers (EIN) shown on the wage referrals did not match SSA records.⁵ In our prior audit, we noted the IRS occasionally sent wage referrals that included data that did not match SSA records, and, in those instances, the Agency

⁵ We were not able to determine whether the IRS resubmitted the wage referrals to SSA after correcting the deficiencies because the Agency did not track this information.

could not process these wage referrals. SSA established a new policy to return these types of referrals to the IRS, indicating the data did not match SSA records (we discuss this on page 6).

Unprocessed Wage Referrals

Additionally, we found there were 6 (3 percent) wage referrals representing about \$83,000 in disputed wages where SSA had not removed the wages from the NHs' earnings records. In five cases, this appears to have been an Agency oversight because the information included on the wage referrals matched Agency records. For example, a 44-year-old woman had disclaimed \$22,000 in wages that was reported by a computer company in Nebraska. Although the SSN, TY, EIN, and wage amount shown on the wage referral matched SSA records, SSA did not remove the disputed wages from her MEF and post them to the ESF. Our review of the NH's earnings record showed these wages were not consistent with her earnings history. Furthermore, we found that the surname shown on the *Wage and Tax Statement* (Form W-2) did not match the NH's Numident⁶ record, which further supported that the wages did not belong to the NH. We believe the wages were posted to the NH's record in error due to one of SSA's name validation edit routines.⁷

For the remaining case, the Agency could not remove the disputed wages from the NH's earnings record because the wages were not subject to the *Federal Insurance Contributions Act* tax. According to Agency staff, the ICOR system, which SSA personnel use to make earnings corrections, was not designed to add, delete, or transfer non-covered wages to and from a NH's earnings record. Therefore, the \$33,000 in non-covered wages the NH disclaimed will remain on his earnings record. According to Agency staff, there is no SSA requirement or policy mandating the correction of non-covered earnings as these wages cannot be used to qualify individuals for Social Security benefits.

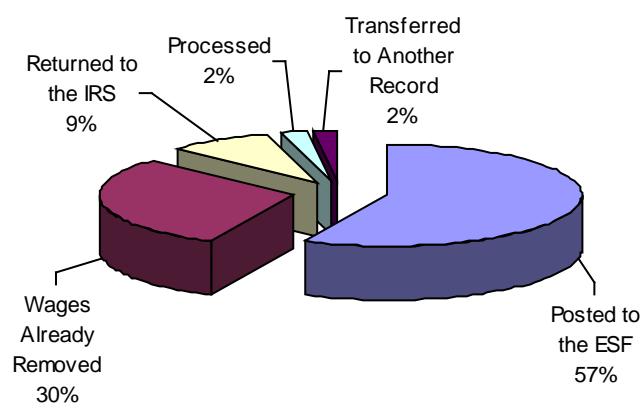
CURRENT WAGE REFERRALS

We found SSA made significant improvements in processing its current workload of IRS wage referrals. In FYs 2005 and 2006, SSA received wage referrals for 28,278 NHs who had disputed the wages for prior TYs. SSA processed the wage referrals for 25,149 NHs (89 percent) by taking the following actions (see Figure 2).

⁶ The Numident file houses records of original and replacement SSN cards issued over an individual's lifetime, as well as identifying information such as date of birth, place of birth, and parents' names.

⁷ SSA's SSN/Name Validation performs up to 22 routines that manipulate the reported name in various ways. The rules attempt to match the data against the Numident.

**Figure 2: Status of Current Wage Referrals
FYs 2005 and 2006**



- For 57 percent, the overstated wages were removed from the NHs' MEF records and posted to the ESF.
- For 30 percent, no action was taken because SSA had previously removed the disclaimed wages.
- For 9 percent, SSA returned the wage referrals to the IRS because of missing or inaccurate information related to the SSN, wage amount, worker's address, or TY.⁸
- For 2 percent, SSA had processed the referrals but had not indicated what action was taken.⁹
- For 2 percent, the wages were transferred to the correct earnings record.

At the end of FY 2006, SSA had wage referrals for 3,129 NHs (11 percent) that were pending disposition. By processing the current wage referrals timely, SSA has prevented the continued misuse of NHs' SSNs in some instances and reduced the risk of improper payments.

STREAMLINED WAGE REFERRAL PROCESS

SSA made several improvements that allowed the Agency to effectively process the backlogged referrals and properly manage their current workload of referrals. We found the Agency made the following improvements.

Operating Procedures. In April 2004, SSA developed detailed operating procedures for the IRS wage referrals to ensure staff consistently processed the wage referrals in accordance with Agency policy.¹⁰ These procedures covered the receipt, disposition,

⁸ We could not determine whether these wage referrals were resubmitted because SSA did not track this information.

⁹ This information was not available because SSA did not start tracking the disposition of the wage referrals until the 2nd quarter of FY 2005.

¹⁰ Revised Office of Central Operations (OCO) Instruction, *Processing IRS/SSA Wage Worksheet-Form 9409*, April 12, 2004.

and retention of the IRS wage referrals.¹¹ The new procedure allows SSA to remove the disclaimed wages based on the IRS' investigation and eliminates the need for SSA to conduct further earnings development.

Coordination with the IRS. In FY 2003, SSA staff met with IRS staff on several occasions to discuss ways to improve the wage referral processes for both agencies. Based on those meetings, SSA and the IRS made the following improvements to help ensure SSA could process the wage referrals it received from the IRS.

- The IRS agreed to ensure all sections of the wage referrals were completed to include the results of the IRS investigation as well as the contact information for the IRS technicians who prepared the wage referral form.
- The two agencies agreed that SSA would return wage referrals that could not be processed because of missing or inaccurate information.
- The IRS agreed to update the wage referral form by annotating when a NH disputed wages because of identity theft. However, we found that SSA's new operating procedures did not require that staff annotate this information in the ICOR system. Given that ICOR is SSA's system of record for documenting actions taken for earnings discrepancies, we believe it should reflect when a NH has disclaimed wages due to identity theft. This additional information may help SSA in determining whether a NH has other similar questionable wages posted to their earnings record (we discuss this on page 7).

Tracking System. In FY 2003, SSA began tracking the receipt and disposition of the wage referrals using the Electronic Control Workload System (ECWS), which is a custom-built batch control system.¹²

QUESTIONABLE EARNINGS POSTED TO MEF

Although SSA was effective in processing the wage referrals, we found it did not always take steps to remove other similar questionable wages that were posted to NHs' earnings records. We estimate that 25 percent of the NHs who disputed the TY 1999 wages had approximately \$72.4 million in questionable wages still posted to their earnings record for years before and after TY 1999. Failure to remove these questionable wages could lead to the NHs qualifying for and/or receiving higher Social Security benefits than they would not have otherwise received.

¹¹ See Appendix E for more details about the operating procedures.

¹² SSA uses ECWS to track other workloads, such as employer 800-number calls and a small portion of the Annual Wage Reporting processing, such as Address Verifications and Report Corrections.

Similar Questionable Wages

In our review of the MEF records for 200 sample cases, we found that, for 49 NHs (25 percent), SSA had failed to remove approximately \$1.2 million in questionable wages posted to the NHs' earnings records for TYs 1995 through 2005. About \$900,000 of these wages was posted to the NHs' earnings records when the Agency processed the TY 1999 wage referrals. Based on our review of the MEF and the ICOR system, we found these wages appeared to be questionable because (a) the wages were reported by the same employers who reported the disputed wages shown on the TY 1999 IRS wage referrals; (b) the wages were not consistent with the NHs' earnings histories; and/or (c) in some cases, the NHs had previously informed SSA that they had not worked for the employers and were victims of identity theft.

For example, in May 2001, a NH who lived in Texas had disclaimed \$15,109 in wages for TY 1996 that was reported by a commercial printing company in California. At that time, SSA confirmed the NH had not worked for the company, and someone else was using her identity. SSA removed the disputed wages from her earnings record and posted them to the ESF. Two years later (June 2003), SSA processed the TY 1999 wage referral by removing \$17,978 in wages from her earnings record that were reported by the same company. At that time, the NH had an additional \$108,000 in wages still posted to her record from the same company for TYs 1995, 1997, 1998, and 2000 through 2002. As of July 2007, the company had reported an additional \$70,000 in wages to SSA for TYs 2003 through 2005 using the NH's name and SSN.

As shown in the table below, most of the NHs had questionable wages posted to their earnings record for multiple years. We found that 25 of the 49 NHs had questionable wages posted for 2 or more years, up to 9 years.

Table: Questionable Wages for TYs 1995 through 2005

Number of Years	Number of NHs	Total Amount of Questionable Wages
1	24	\$127,419
2	16	\$325,416
3	1	\$7,921
4	3	\$157,409
5	2	\$205,411
6	1	\$96,003
7	1	\$109,180
9	1	\$177,440
Grand Total	49	\$1,206,199

Based on our sample results, we estimate that about 2,940 (25 percent) NHs who disputed the TY 1999 wages had approximately \$72.4 million in questionable wages still posted to their earnings record for other TYs. Since SSA can use these questionable wages to determine whether NHs qualify for and/or receive higher Social Security benefits, SSA should be vigilant in removing the questionable wages to avoid

overpayments. For example, we found that, for 2 of the 49 sample cases, the questionable wages resulted in the NHs receiving an additional \$3,997 in Title II payments to which they may not have been entitled.¹³

Procedures for Removing Other Questionable Wages

SSA staff informed us that the questionable wages were not removed from the NHs' earnings records because the staff responsible for processing the wage referrals was limited to only reviewing NHs' earnings records for the TY(s) in question.¹⁴ Therefore, they were unaware that similar questionable wages were posted to the NHs' record for other years. Before streamlining the wage referral process, SSA required that staff conduct earnings development and review the cases according to the Program Operations Manual System (POMS), which instructs staff to review a NH's earnings record for years before and after the year in question.¹⁵ This review process assists SSA staff in determining whether the employer reported wages correctly for other years. We believe the new operating procedures do not comply with POMS and should be updated to allow for a more comprehensive review of an NH's earnings record, as it would allow SSA to identify other questionable wages that may need to be removed from the NH's earnings record.

CONCLUSION AND RECOMMENDATIONS

Overall, SSA was effective in processing the backlogged wage referrals identified in our prior audit. Moreover, the Agency's effort to streamline the wage referral process was effective with timely processing the current wage referral workload. However, we believe the Agency's policy and procedures for identifying similar questionable wages posted to the MEF should be strengthened because these wages could be used to qualify or increase a NH's benefit amount resulting in potential overpayments.

To improve SSA's process for addressing the IRS wage referrals, we recommend SSA:

1. Review and process the wage referrals for the five sample cases of unprocessed IRS wage referrals discussed in the report.
2. Review the questionable wage items for the 49 cases identified in this audit where wages may need to be removed from individuals' earnings records to prevent future improper payments.

¹³ In the first case, the beneficiary received an additional \$3,956 in benefit payments based on approximately \$109,000 in questionable wages posted to his MEF. In the second case, the beneficiary received an additional \$41 in payments based on about \$9,000 in questionable wages posted to his MEF.

¹⁴ Revised OCO Instruction, *Processing IRS/SSA Wage Worksheet-Form 9409*, April 12, 2004.

¹⁵ POMS, RM 3870.015.A.3—*Development of Earnings Records Inaccuracies*.

3. Modify current policy and procedures for wage referrals to (a) require that staff annotate in the ICOR system when an NH disclaims wages because of identity theft and (b) expand the review of the NH's earnings record to include years before and after the year in question to ensure compliance with POMS. This will assist with determining whether additional questionable earnings are posted to the NH's record. If so, have the appropriate office conduct further earnings development to determine if these wages should be removed from the NH's earnings record.

AGENCY COMMENTS

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

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

Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – IRS/SSA Worksheet (Form 9409)

APPENDIX C – Scope and Methodology

APPENDIX D – Sampling Methodology and Results

APPENDIX E – Social Security Administration Procedures for Processing Internal Revenue Service Wage Referrals

APPENDIX F – Agency Comments

APPENDIX G – OIG Contacts and Staff Acknowledgments

Appendix A

Acronyms

CY	Calendar Year
DEQY	Detail Earnings Query
ECWS	Electronic Control Workload System
EIN	Employer Identification Number
ESF	Earnings Suspense File
FY	Fiscal Year
ICOR	Item Correction 2.8
IRS	Internal Revenue Service
MEF	Master Earnings File
NH	Numberholder
OCO	Office of Central Operations
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SSA	Social Security Administration
SSN	Social Security Number
TY	Tax Year

Forms

Form 9409	<i>IRS/SSA Wage Worksheet</i>
Form W-2	<i>Wage and Tax Statement</i>

Appendix B

IRS/SSA Wage Worksheet (Form 9409)

Form 9409 (September 2006)	Department of the Treasury—Internal Revenue Service IRS/SSA Wage Worksheet		
Social Security Number	Taxpayer's Name	Tax Year (MMDDYYYY)	
Mail this completed form to: Social Security Administration Division of Earnings Record Operations 300 N. Greene Street South Bldg., 3rd Flr., 3-T-17 Baltimore, Maryland 21290	Taxpayer's Address		
<p>The income tax return for the above taxpayer disagrees with the employer-reported earnings on the Form W-2 for the above SSN and tax year. The IRS has investigated the discrepancy and is providing the following information for SSA's use to correct taxpayer wage records:</p>			
A. Information Originally Reported by Employer			
1. EIN	2 Total	3. FICA Wages	4. Medicare Account
5. MQGE (Medicare Qualified Government Employee) Amount			
B. IRS Investigation Results			
1. Taxpayer and employer state the taxpayer did not work for that employer. Employer did not provide any other name or SSN.			
2. Taxpayer states he/she did not work for the above employer. Attempts to contact employer by IRS were unsuccessful.			
3. Employer states the correct name and SSN should be:		4. Taxpayer states his/her identity was stolen.	
Name		SSN	
5. Taxpayer states he/she did not work for employer. Employer states the name and SSN on the Form W-2 are correct.			
6. Payer erroneously reported multiple Forms W-2 information on a taxpayer to the Social Security Administration. The payer has verified the correct Form W-2 was reported by the taxpayer.			
C. SSA Action			
1. Remove earnings for the above EIN for this SSN and place in suspense.			
2. Transfer earnings from the above SSN to the correct SSN as shown in B.3.			
3. Notify the individual of any earnings being removed. The notice should include appeal language.			
Signature	Title		
Location and Phone	Date		
Catalog No. 14155U		Form 9409 (Rev. 9-2006)	

Scope and Methodology

To accomplish our objective, we:

- Reviewed pertinent sections of the Social Security Administration's (SSA) policies and procedures as well as other relevant Federal laws and regulations.
- Reviewed Office of the Inspector General and Inspector General for Tax Administration reports, as well as other relevant documents.
- Discussed with SSA staff the policy and procedures for processing the *IRS/SSA Wage Worksheet* (Form 9409).
- Discussed policy and procedures related to Forms 9409 with staff at the Internal Revenue Service (IRS).
- Obtained and reviewed the Operating Procedures for processing the Forms 9409.
- Obtained and reviewed the 12,002 Tax Year (TY) 1999 Form 9409s identified in a prior audit.
- Selected a random sample of 200 Forms 9409 from TY 1999 and analyzed each form using information from the Master Earnings File (MEF),¹ Earnings Suspense File (ESF),² Item Correction 2.8 (ICOR),³ and the Numident.⁴ See Appendix D for the sampling methodology and results.

Our audit did not include a test of (1) the completeness of the number of Forms 9409 the Agency maintained and (2) IRS internal controls related to the referrals sent to SSA. The SSA entity responsible for processing the Forms 9409 is the Office of Central Operations (OCO) under the Deputy Commissioner of Operations. We performed our audit at OCO in Baltimore, Maryland, and the Office of Audit in Philadelphia,

¹ The MEF contains all earnings data reported by employers and self-employed individuals. The data are used to determine eligibility for and the amount of Social Security benefits.

² The ESF is an electronic file that houses reported earnings that cannot be associated with an individual's name and/or Social Security number (SSN).

³ SSA uses the ICOR process to maintain accurate postings to individuals' earnings record. ICOR allows the Agency to add unposted earnings and change or delete posted earnings on workers' MEF records. ICOR also permits the movement of posted earnings to and from the ESF.

⁴ The Numident file houses records of original and replacement SSN cards issued over an individual's lifetime, as well as identifying information such as date of birth, place of birth, and parents' names.

Pennsylvania, between December 2006 and October 2007. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Sampling Methodology and Results

To complete our objective, we reviewed the Social Security Administration's (SSA) paper files of *IRS/SSA Wage Worksheet* (Form 9409) related to Tax Year (TY) 1999. Based on our review, we identified 12,002 referrals related to TY 1999. We selected a random sample of 200 Forms 9409 from TY 1999 totaling approximately \$2 million in wages and analyzed each Form 9409 using information from the Master Earnings File (MEF),¹ Earnings Suspense File (ESF),² Item Correction 2.8 (ICOR),³ and Numident.⁴ Using this information, we determined whether the Agency had removed overstated wages from the numberholder's (NH) earnings record, transferred wages to another person's earnings record, or returned the Forms 9409 to the Internal Revenue Service because the information did not match SSA's records. Further, we determined whether SSA had taken appropriate action for other questionable wages not included in the Forms 9409.⁵

¹ The MEF contains all earnings data reported by employers and self-employed individuals. The data are used to determine eligibility for, and the amount of, Social Security benefits.

² The ESF is an electronic file that houses reported earnings that cannot be associated with an individual's name and/or Social Security number (SSN).

³ SSA uses the ICOR process to maintain accurate postings to individuals' earnings records. ICOR allows the Agency to add unposted earnings and change or delete posted earnings on workers' MEF records. ICOR also permits the movement of posted earnings to and from the ESF.

⁴ The Numident file houses records of original and replacement SSN cards issued over an individual's lifetime, as well as identifying information such as date of birth, place of birth, and parents' names.

⁵ We reviewed NHs' earnings records for TYS 1995 to 2005 to determine whether additional wages from the same employer were posted for years before and after the disputed tax year.

Wage Referral Projections	
Sample population—Number of Wage Referrals	12,002
Sample Size	200
Sample Results and Projections – Processed Wage Referrals	
Attribute Projection	
Sample cases—Wage Referrals Processed by SSA	183
Projection—Wage Referrals Processed by SSA	10,982
Projection lower limit	10,509
Projection upper limit	11,340
Variable Projection	
Sample cases—Wage Referrals Processed by SSA	\$1,763,870
Projection—Wage Referrals Processed by SSA	\$105,849,839
Projection lower limit	\$90,293,548
Projection upper limit	\$121,406,129

Sample Results and Projections – Other Similar Questionable Wages	
Attribute Projection	
Sample cases—Other Questionable Wages	49
Projection—Other Questionable Wages	2,940
Projection lower limit	2,352
Projection upper limit	3,597
Variable Projection	
Sample cases—Other Questionable Wages	\$1,206,199
Projection—Other Questionable Wages	\$72,383,974
Projection lower limit	\$43,476,977
Projection upper limit	\$101,290,972

Note: The projections were made at a 90-percent confidence level.

Social Security Administration Procedures for Processing Internal Revenue Service Wage Referrals

Each year, the Internal Revenue Service (IRS) sends *IRS/SSA Wage Worksheet* (Form 9409) to the Social Security Administration (SSA) stating the wages reported under a specific Social Security number (SSN) do not belong to the numberholder. The IRS then notifies SSA via Form 9409 to correct the individual's earnings record. In most instances, a technician in the Division of Earnings Record Operations will move the earnings to the Earnings Suspense File (ESF)¹ or to another SSN shown on the Form 9409 via the Item Correction (ICOR) system.² Upon receiving the Form 9409, a SSA technician will³

- review Form 9409 for acceptability (validate information against the Numident file);⁴
- obtain a Detail Earnings Query (DEQY)⁵ for the SSN(s) and Tax Year (TY) shown on the Form 9409;
- make adjustment via ICOR, if applicable;
- send the individual a standard notice to inform them of the change;
- release adjustment/clear case; and
- place Form 9409 in holding file for 90 days.

¹ The ESF is an electronic file that houses reported earnings that cannot be associated with an individual's name and/or SSN.

² SSA uses the ICOR process to maintain accurate postings to individuals' earnings records. ICOR allows the Agency to add unposted earnings and change or delete posted earnings on workers' Master Earnings File (MEF) records. ICOR also permits the movement of posted earnings to and from the ESF.

³ Revised Office of Central Operations Instruction, *Processing IRS/SSA Wage Worksheet-Form 9409*, April 12, 2004.

⁴ The Numident file houses records of original and replacement SSN cards issued over an individual's lifetime, as well as identifying information such as date of birth, place of birth, and parents' names.

⁵ The DEQY is an immediate response online query that displays requested earnings information and related data. The data displayed are extracted from the MEF and/or the Employer Identification File.

If the disputed wages do not appear on the DEQY or if the wages are not covered, the technician should not process the wage referral. Furthermore, the technician should return the Form 9409 to the IRS for the following reasons:

- missing SSN and/or TY,
- missing TY and wages,
- missing address for the taxpayer, and
- name and SSN does not validate to the Numident file.

Appendix F

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: May 19, 2008 Refer To: S1J-3

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

From: David V. Foster /s/
Chief of Staff

Subject: Office of the Inspector General (OIG) Draft Report, "Follow-Up: The Social Security Administration's Processing of the Internal Revenue Service's Overstated Wage Referrals" (A-03-07-17067)—INFORMATION

We appreciate OIG's efforts in conducting this review. Our response to the recommendations is attached.

Please let me know if we can be of further assistance. Staff inquiries may be directed to Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at (410) 965-4636.

Attachment

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL'S DRAFT REPORT,
"FOLLOW-UP: THE SOCIAL SECURITY ADMINISTRATION'S PROCESSING OF
THE INTERNAL REVENUE SERVICES' OVERSTATED WAGE REFERRALS"
(A-03-07-17067)**

Thank you for the opportunity to review and provide comments on this draft report.

Recommendation 1

Review and process the wage referrals for the five sample cases of unprocessed Internal Revenue Service (IRS) wage referrals discussed in the report.

Comment

We agree. We will review and process the five sample cases within five work-days of receipt.

Recommendation 2

Review the questionable wage items for the 49 cases identified in this audit where wages may need to be removed from individuals' earnings records to prevent future improper payments.

Comment

We agree. We will review and process the 49 questionable cases. A review of the 49 cases will assist us in determining: 1) if procedure modifications are required; and 2) the impact on the operating component responsible for processing the work and the impact on supporting components.

Recommendation 3

Modify current policy and procedures for wage referrals to: a) require that staff annotate in the Item Correction System when a Numberholder (NH) disclaims wages because of identity theft and; b) expand the review of the NH's earnings record to include years before and after the year in question to ensure compliance with Program Operation Manual System (POMS). This will assist with determining whether additional questionable earnings are posted to the NH's record. If so, have the appropriate office conduct further earnings development to determine if these wages should be removed from the NH's earnings record.

Comment

We agree. By May 31, 2008, we expect to have revised policy updating RM 03870.057, which details the policy and procedure for when earnings may be transferred, ready to be published in the POMS. We will further explore electronic ways to expand the review of the years before and after the questionable years on the record.

Appendix G

OIG Contacts and Staff Acknowledgments

OIG Contacts

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