



SOCIAL SECURITY

MEMORANDUM

Date: January 28, 2003 **Refer To:**

To: The Commissioner

From: Inspector General

Subject: Performance Indicator Audit: Wage Reporting (A-15-02-11087)

We contracted with PricewaterhouseCoopers (PwC) to evaluate the data used to measure 18 of the Social Security Administration's performance indicators established to comply with the Government Performance and Results Act. Attached is the final report that presents the results of two of the performance indicators PwC reviewed. The objective of this audit was to assess the reliability of the data used to measure the percent of wage items posted to individuals' records by September 30 and percent of employee reports (W-2s) filed electronically.

Please comment within 60 days from the date of this memorandum on corrective action taken or planned on 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.

James G. Huse, Jr.

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**PERFORMANCE INDICATOR
AUDIT:
WAGE REPORTING**

January 2003

A-15-02-11087

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.

MEMORANDUM

To: Office of the Inspector General
From: PricewaterhouseCoopers LLP
Date: January 3, 2003
Subject: Performance Indicator Audit: Wage Reporting (A-15-02-11087)

The Government Performance and Results Act (GPRA) of 1993¹ requires the Social Security Administration (SSA) to develop performance indicators that assess the relevant service levels and outcomes of each program activity set forth in its budget.² GPRA also calls for a description of the means employed to verify and validate the measured values used to report on program performance.³ The objective of this audit was to assess the reliability of the data used to measure the following Fiscal Year (FY) 2002 GPRA performance indicators:

<u>Performance Indicator</u>	<u>FY 2002 Goal</u>
1. Percent of wage items posted to individuals' records by September 30	98% ⁴
2. Percent of employee reports (W-2s) filed electronically	30% ⁵

See Appendix A for a description of the audit scope and methodology.

BACKGROUND

SSA offers retirement and long-term disability programs to the general public. Old-Age, Survivors, and Disability Insurance (OASDI) is authorized under title II of the Social Security Act (Act)⁶ and includes Retirement and Survivors Insurance and Disability Insurance. Through the OASDI program, eligible workers and sometimes their family receive monthly benefits if they retire at an appropriate age or are found to have a

¹ Public Law No. 103-62, 107 Stat. 285.

² 31 U.S.C. 1115 (a) (4).

³ 31 U.S.C. 1115 (a) (6).

⁴ *Social Security: Performance Plan for Fiscal Year 2003, Revised Final Performance Plan for Fiscal Year 2002*, page 90.

⁵ Ibid, page 91.

⁶ 42 U.S.C. 401 et seq.

disability that either prevents them from engaging in substantial gainful activity for at least 12 months or can be expected to result in death.⁷ Supplemental Security Income (SSI) is authorized under title XVI of the Act and provides monthly payments to aged and disabled individuals based on financial need and medical requirements.⁸

A key factor in determining eligibility for title II and title XVI claims is an individuals' earnings record. The Earnings Record Maintenance System (ERMS) is the major system used to post earnings. It accepts and processes wage data from employers and self-employed individuals from a variety of data types including paper, magnetic media, and electronic submission. Upon receipt, ERMS performs validation and edit checks on the record and posts each individuals' earnings to the Master Earnings File (MEF). When ERMS is unable to validate a name/Social Security number combination, it posts the record to the Earnings Suspense File (ESF). Approximately one percent of all wage items are posted to the ESF. ERMS data is extracted to a number of management information data stores for further reporting.

For FY 2002, SSA developed three performance indicators related to this process for its Annual Performance Plan (APP). This report reviews two of these performance indicators. Performance indicator #1 measures the percent of earnings posted to individuals' records by September 30. SSA uses the Earnings Posted Overall Cross Total/Year-to-Date (EPOXY) system to capture and report this data. EPOXY produces a weekly report that provides information on the number of records posted. The performance indicator is calculated by dividing the number of records posted to the MEF before September 30 by the total number of records posted to the MEF for the same tax year (TY).

Performance indicator #2 measures the percent of employee reports (W-2s) filed electronically. SSA defines electronic filing of wage reports as any submission of W-2's digitally over the internet. SSA uses the Earnings Management Information Operational Data Store (EMODS) system to capture and report this data. EMODS provides a report that details all employers' W-2 summaries (W-3s) and the method in which it was submitted to SSA. The performance indicator is calculated by dividing the number of W-2s submitted electronically by the total number of W-2s submitted for the same TY.

Throughout the year, SSA projects an estimated count of W-2s in order to calculate a running percentage for the performance indicators. The annual estimated W-2s is determined through the Office of Research, Evaluation and Statistics and the Office of the Actuary. Once the actual amounts are determined in the following year, SSA updates the performance indicator data accordingly.

⁷ 42 U.S.C. 423 (d)(1).

⁸ 42 U.S.C. 1381 et seq.

RESULTS OF REVIEW

We reviewed the reliability of the data used to measure the percent of records posted to individuals' records by September 30. In addition, we reviewed the reliability of the data used to measure the percent of W-2s filed electronically. We used TY 2000 data for both performance indicators since TY 2001 data was not available at the time of our review. Since TY 2000 data is reported during FY 2001, we compared our results to SSA's FY 2001 performance indicator data. We determined that data for performance indicators #1 and #2 was reliable and reasonably stated.

We also reviewed each performance indicator to determine if it was an appropriate GPRA measure. Although we determined that these performance indicators were appropriate measures, we found that SSA did not develop any performance indicators to address the ESF. The ESF was identified as one of ten major management issues facing SSA.

PERFORMANCE INDICATOR #1 DATA WAS RELIABLE

We evaluated the percent of wage items posted to individuals' records by September 30 for TY 2000. We tested this data by analyzing a random sample of approximately 13 million records from a total population of over 250 million records. Our sample represented approximately one-twentieth of the items posted to the MEF in TY 2000 and our margin of error was .006 percent. We reviewed the posting data of each record in our sample and determined that 98.6 percent of the records were posted before September 30. Our audit substantiated the reliability of SSA's data reported in the EPOXY reports and confirmed that SSA met its FY 2001 APP goal of 98 percent.

PERFORMANCE INDICATOR #2 DATA WAS RELIABLE

We evaluated the percent of W-2s filed electronically for TY 2000. We tested this data by reviewing all employers' W-3s submitted for that year. We determined that 27 percent of W-2s were submitted electronically for TY 2000. We compared our results to SSA's reported results and found any differences in the counts to be immaterial. Our audit substantiated the reliability of SSA's data reported in the EMODS report and confirmed that SSA met its FY 2001 APP goal of 20 percent.

OTHER MATTERS

We also evaluated each performance indicator within the context of SSA's APP. While we found that these performance indicators were appropriate measures, we noted some areas for improvement.

In January 2001, SSA issued a report on its major management challenges and specifically cited the ESF. Between TY 1937 and 1999 the ESF has grown to approximately \$333 billion in wages representing approximately 227 million wage items. The APP cites the ESF as a key initiative and highlights a number of individual projects

to address this issue. However, the APP does not offer any performance indicators to measure SSA's progress in reducing the ESF. SSA should develop performance indicators that address this issue.

Additionally, we found that performance indicator #1 was inadequately defined. The performance measure is defined as "...the number of prior tax year wage items posted by the end of September, divided by the number of prior tax year wage items posted by the end of the processing year." Although technically accurate, this definition can be misleading to the public. This performance indicator is calculated by using data from the MEF only. It disregards records posted to the ESF. SSA should change the data definition to read "...the number of prior tax year wage items posted to the MEF." Additionally, it should include a concise definition of the MEF and the ESF.

CONCLUSIONS AND RECOMMENDATIONS

We found that the data used by SSA for performance indicators #1 and #2 were reliable and reasonably stated. We found that SSA had adequate controls and documentation regarding both performance indicators. In addition, we found that the performance indicators were appropriate GPRA measures although we identified some areas for improvement. Our recommendations are as follows:

1. Develop performance indicators to address the ESF

The ESF is a significant management challenge for SSA. Additional performance indicators should be developed to address this issue. This will enable SSA to measure the results of key initiatives related to the ESF over a period of time.

2. Provide a more concise description of performance indicator #1

SSA should clearly specify the data definition for performance indicator #1. Additionally, SSA should provide a more thorough description of the earnings posting process.

AGENCY COMMENTS

SSA agreed with our recommendations. They plan to add a performance indicator for reducing the size of the ESF in its FY 2004 AAP (Recommendation 1). SSA also plans to modify the definition for performance indicator #1 (Recommendation 2). The full text of SSA's comments can be found in Appendix D.

PWC RESPONSE

The Agency plans outlined in their comments are responsive to the issues we identified and, when fully implemented, should satisfy the recommendations.

Appendices

APPENDIX A – Scope and Methodology

APPENDIX B – Flowcharts and Descriptions

APPENDIX C – Acronyms

APPENDIX D – Agency Comments

Appendix A

Scope and Methodology

We conducted this audit to examine two performance indicators related to the Social Security Administration's (SSA) wage reporting process. We verified the underlying data and calculations for performance indicators #1 and #2 and reviewed its' controls and documentation. Our audit was performed from May 1, 2002 through August 1, 2002 as follows:

- Reviewed related reports from the Earnings Posted Overall Cross Total/Year-to-Date (EPOXY) and Earnings Management Information Operational Data Store (EMODS) systems.
- Determined appropriate sample size, obtained sample for Tax Year (TY) 2000, and calculated the margin of error for performance indicator #1.
- Recalculated data for performance indicator #1 based on sample size and compared to reported results.
- Obtained annual wage reporting data for performance indicator #2 for TY 2000.
- Determined counts for all submission types and recalculated data for performance indicator #2.
- Compared recalculated results with reported results for performance indicator #2.

In conducting this audit, we also:

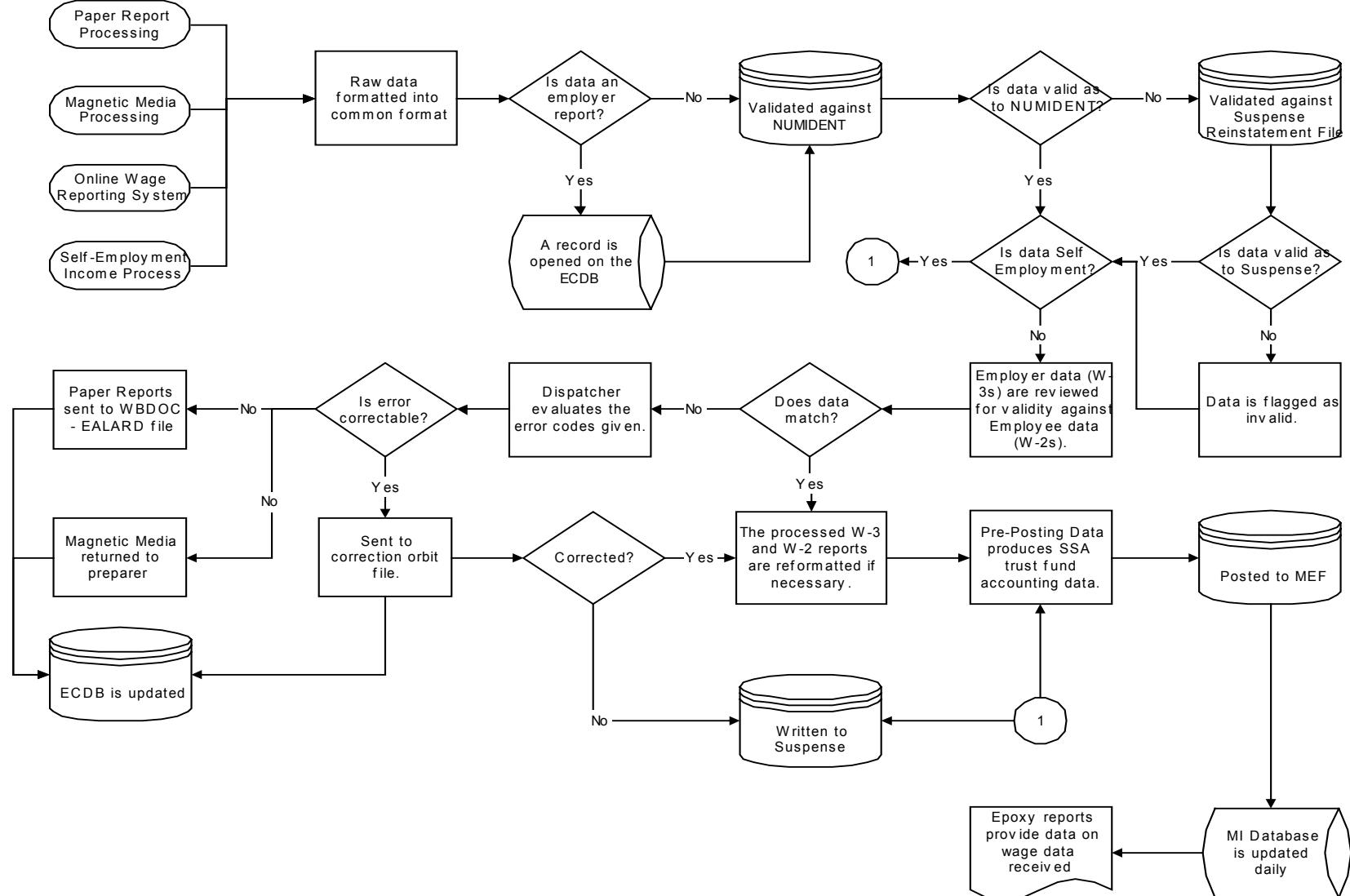
- Reviewed SSA's Performance and Accountability Report for Fiscal Year (FY) 2001, SSA's Annual Performance Plan for FY 2001, and SSA's Revised Performance Plan for FY 2002 to determine related milestones, definition, and data source for each performance indicator.
- Reviewed Government Performance and Results Act (GPRA) and related Office of Management and Budget circulars and ensured that performance indicators conformed to GPRA guidelines.
- Interviewed the respective project team for each performance indicator to gain an understanding of the data, the process to calculate the data, and any related reporting processes.

Our audit was limited to testing at SSA's Headquarters in Woodlawn, Maryland. The procedures we performed were in accordance with the American Institute of Certified Public Accountants' Statement on Standards for Consulting Services and the General Accounting Office's *Government Auditing Standards* ("Yellow Book") for performance audits.

Appendix B

Flowcharts and Descriptions

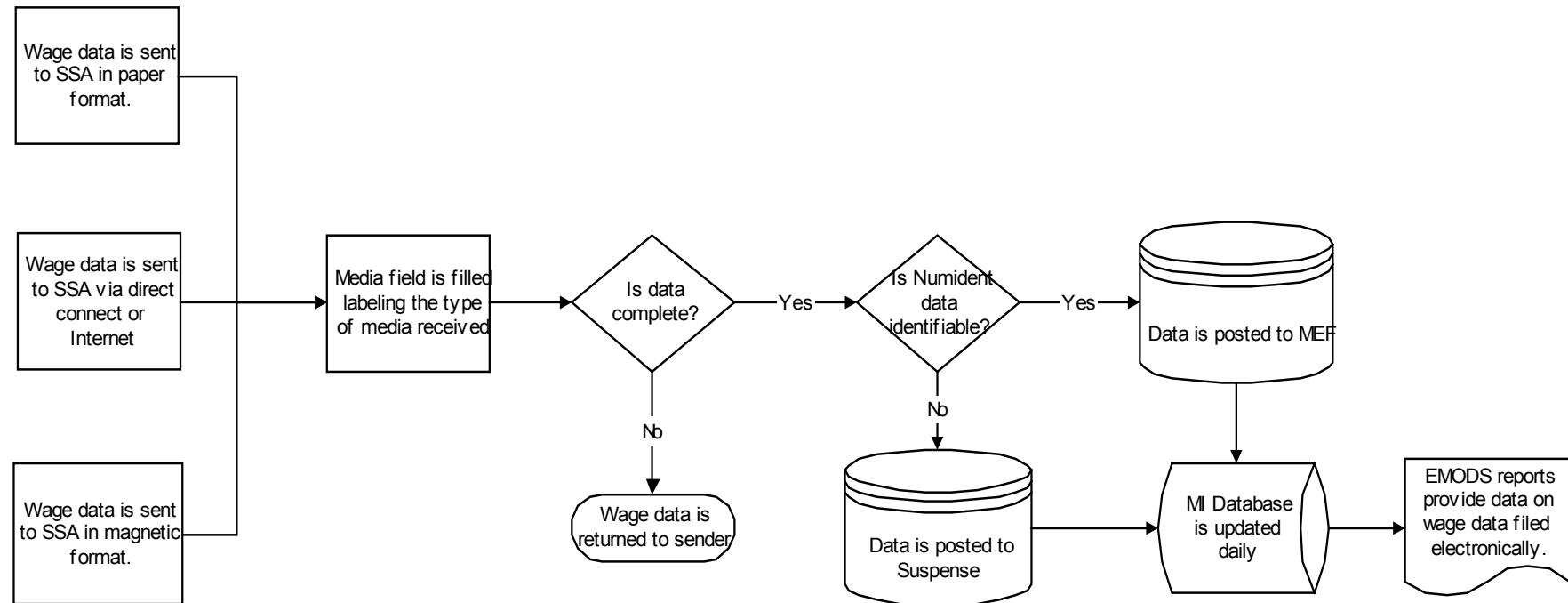
Earnings Record Maintenance System



Earnings Record Maintenance System Process:

- Earnings records are received in various formats: Paper, Magnetic media, Online, and self-employment records from the IRS.
- The data is formatted into a common format.
- If the data is employer data, a record is opened in the Employer Control Database (ECDB).
- All records are validated against the NUMIDENT system.
- Data that is not valid against the NUMIDENT system are validated against the Suspense Reimbursement file.
- Data that is not valid against the Suspense file are flagged as invalid.
- If record is self-employment data, it is sent directly to Pre-Posting.
- All other data is sent to employer/employee validation.
- If the employer and employee data do not match, they are assigned an error code for review by a dispatcher.
- The dispatcher evaluates the errors associated with records that did not pass the employer/employee validation.
- Records that cannot be corrected are sent back to the Wilkes-Barre Data Operation Center for research if they were received in paper form. Records received through magnetic media are returned to sender to be reprocessed.
- If the records can be corrected, they are sent to a correction orbit file where they are fixed.
- The ECDB is updated for the any files that are dispatched.
- Data that has not been sent back to its source to be reprocessed are reformatted and sent to Pre-Posting and posted to the master earnings file if valid. If the data is invalid, it is sent to the suspense file.
- A Management Information (MI) database is updated daily.
- The MI database generates EPOXY reports that summarize wage data received.

Annual Wage Reporting (percent of W-2s filed electronically)



Annual Wage Reporting (percent of W-2s filed electronically) Process:

- Wage data is sent to Social Security Administration in paper format, electronically via the Internet or Direct Connect, or in magnetic media format.
- Each record is assigned a media code that identifies the format in which it was received.
- If the data is not complete, the information is returned to the sender and removed from the Annual Wage Reporting system.
- Complete data is validated against the NUMIDENT.
- If the data is not valid against the NUMIDENT, the record is posted to Suspense.
- If the data is valid against the NUMIDENT, the record is posted to the MEF.
- An MI database is updated daily with information containing data posted to the MEF and Suspense.
- The MI database generates EMODS reports that provide a count of wage data sent electronically.

Appendix C

Acronyms

APP	Annual Performance Plan
ECDB	Employer Control Database
EMODS	Earnings Management Information Operational Data Store
EPOXY	Earnings Posted Overall Cross Total/Year-to-Date
ERMS	Earnings Record Maintenance System
ESF	Earnings Suspense File
FY	Fiscal Year
GPRA	Government Performance and Results Act
MEF	Master Earnings File
MI	Management Information
OASDI	Old Age, Survivors and Disability Insurance
OMB	Office of Management and Budget
SSA	Social Security Administration
SSI	Supplemental Security Income
TY	Tax Year

Appendix D

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: December 23, 2002 Refer To: S1J-3

To: James G. Huse, Jr.
Inspector General

From: Larry Dye /s/
Chief of Staff

Subject: Office of the Inspector General (OIG) Draft Report, "Performance Indicator Audit: Wage Reporting" A-15-02-11087

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

Staff questions may be referred to Laura Bell on extension 52636.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "PERFORMANCE INDICATOR AUDIT: WAGE REPORTING (A-15-02-11087)

Thank you for the opportunity to comment on the draft report. We are pleased that your review found that the data used for both performance indicators was reliable and reasonably stated. Below are our responses to the specific recommendations. We are also providing a technical comment that should be included in the final report.

Recommendation 1

Develop performance indicators to address the Earnings Suspense File (ESF).

SSA Comment

While it is true that the Agency's Annual Performance Plan (APP) does not contain specific measures for the ESF which has been identified as one of the agency's management challenges, the plan does include an informative discussion of our means and strategies to address the ESF. We plan to include performance indicators for reducing the size of the ESF in our fiscal year (FY) 2004 APP. However, we are unable to cite specific goals at this time because both the final FY 2004 APP and the Strategic Plan are still under development.

Recommendation 2

Provide a more concise description of performance indicator #1.

SSA Comment

We agree. The data definition should read "the number of prior tax year wage items posted to the Master Earnings File." We will use the new definition language in future APP documents.

Technical Comments

On page 3, third paragraph, replace the third sentence with the following:

"Our sample represents approximately one-twentieth of the items posted to the MEF in TY 2000."

Overview of the Office of the Inspector General

Office of Audit

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers' Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations and cash flow. Performance audits review the economy, efficiency and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency, rather than detecting problems after they occur.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.