

Office of the Inspector General

June 18, 1999

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Principal Deputy Commissioner

Acting Inspector General

The Social Security Administration's Effectiveness in Tracking Magnetic Media Wage Reports Returned to Employers

The attached final report presents the results of our audit of the Social Security Administration's (SSA) effectiveness in tracking magnetic media wage reports returned to employers (A-03-96-31003). The objective of our review was to evaluate SSA's effectiveness in tracking reports that must be returned to employers (or "submitters" such as payroll processing firms) for correction and resubmission when SSA is unable to process them.

Based on our review of a sample of 200 returned submissions, SSA's tracking of rejected magnetic media submissions is adequate. Many employers, however, were untimely in correcting and resubmitting their wage reports to SSA. SSA followed up in every case in our sample where employers were late or did not resubmit corrected wage reports as required. Therefore, this report contains no recommendations.

You may wish to comment on the final report. If you choose to offer comments, please provide them within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact Daniel R. Devlin, Acting Assistant Inspector General for Audit, at (410) 965-9700.

James G. Huse, Jr.

Attachment

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OFFICE OF  
THE INSPECTOR GENERAL

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SOCIAL SECURITY ADMINISTRATION

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THE SOCIAL SECURITY  
ADMINISTRATION'S  
EFFECTIVENESS IN  
TRACKING MAGNETIC  
MEDIA WAGE REPORTS  
RETURNED TO EMPLOYERS

June 1999                  A-03-96-31003

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AUDIT REPORT

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# **EXECUTIVE SUMMARY**

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## **OBJECTIVE**

The objective of our review was to evaluate the Social Security Administration's (SSA) effectiveness in tracking magnetic media wage reports that must be returned to employers (or "submitters" such as payroll processing firms) for correction and resubmission when SSA is unable to process them.

## **BACKGROUND**

SSA requires employers with 250 or more employees to report annual wages on magnetic media (tape, diskette or cartridge). SSA assigns a control number to each magnetic media wage report, which stays with it throughout all processing steps. "Acceptable" wage reports (those that do not exceed established thresholds for the type and number of errors) continue through the system and are posted to the Master Earnings File or the suspense file.<sup>1</sup>

If a wage report submission cannot be read, is damaged or contains certain types or numbers of errors, SSA returns the wage report to the employer with an explanation of the problem. SSA has established time frames to maintain control over rejected wage reports—14 days for the employer to initially acknowledge the rejection and 45 days for the employer to submit a corrected report. If SSA does not receive the corrected wage report, the Agency automatically sends follow-up notices and may ultimately forward the case to the Internal Revenue Service to assess late penalties.

## **RESULTS OF REVIEW**

SSA has an effective system for tracking magnetic media wage reports that are returned to employers because they contain errors. Common reasons cited by SSA for rejecting submissions above the established thresholds include "unreadable" reports, use of the incorrect tax year and reports with Social Security numbers and names that do not match SSA's master file.

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<sup>1</sup> For Tax Year 1995 and prior, SSA would accept submissions if as few as 10 percent of the names/Social Security numbers were valid. SSA increased the acceptance threshold to 30 percent for 1996 and to 50 percent for 1997 (with a maximum of 5,000 errors allowed).

## **CONCLUSIONS**

Based on our review of a judgmental sample of 200 returned submissions, SSA's tracking of rejected magnetic media wage submissions is adequate. Therefore, this report contains no recommendations.

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# INTRODUCTION

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## OBJECTIVE

The objective of our review was to evaluate the Social Security Administration's (SSA) effectiveness in tracking magnetic media wage reports that must be returned to employers (or "submitters" such as payroll processing firms) for correction and resubmission when SSA is unable to process them.

## BACKGROUND

Employers send annual wage report (AWR) submissions<sup>2</sup> on tape, diskette or cartridge to SSA's Office of Central Operations (OCO) in Baltimore, Maryland, for processing.<sup>3</sup> SSA assigns a tape library control number (TLCN)<sup>4</sup> to each submission and attempts to read the magnetic media submission, a process known as Initial Magnetic Read (IMR).

IMR determines whether the submission is machine-readable and correctly formatted. If the submission is correctly formatted, the individual wage reports in the submission go through a series of batch processes; the batch processes evaluate the wage reports and decide their disposition based on the type and number of errors detected.

Acceptable wage reports continue through SSA's earnings establishment system and eventually are posted to the Master Earnings File (MEF) or the suspense file (in cases where the reported name and Social Security number [SSN] do not match). Even if an overall submission must be returned, SSA generally processes those AWRs that have no errors or only insignificant ones.

In general, SSA rejects AWR submissions if either of two conditions exist:

- SSA is unable to process the submission through IMR. This can occur when the submission media is partly or completely unreadable, damaged or incompatible with SSA's equipment.
- The submission passes IMR, but contains certain types or numbers of errors. This can occur if the submission contains one or more "critical" errors that SSA can neither process nor correct. For example, these conditions can exist when the percentage of invalid names and/or SSNs is above certain thresholds, or

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<sup>2</sup> An individual submission can consist of one or more AWRS from one or more employers.

<sup>3</sup> SSA received 103,000 magnetic media submissions in 1996; of these, some 11,490 submissions (about 11 percent) were returned to the submitters.

<sup>4</sup> TLCN is SSA's control mechanism over all AWR submissions. The same TLCN is assigned throughout all processing steps, including any resubmissions due to submission error.

when 21 or more AWRs in an individual submission have “report correction” errors.

### **Business Process for Rejected AWR Submissions**

SSA sends a rejection notice to the employer explaining the problem with the submission and asks the employer to call SSA to confirm receipt. If the employer does not call within 14 days, the system electronically alerts the magnetic media technician to make up to three attempts to contact the employer by telephone. In either scenario, SSA documents all contacts with employers, advises them about the needed correction, offers assistance, establishes the due date for resubmitting the AWRs, and advises on the consequence of missing due dates—which includes penalties that can be assessed by the Internal Revenue Service (IRS).

If SSA does not receive the resubmittal within 65 days of the date of the reject notice, SSA automatically sends a first follow-up notice to the employer. If SSA does not receive the resubmittal within 124 days of the date of the reject notice, SSA automatically sends a second (final) follow-up notice to the employer.

### **SSA/IRS Reconciliation**

If the employer does not return a rejected wage report to SSA, it is recognized in the reconciliation process. As SSA processes employer wage reports, it maintains a record of total Social Security and Medicare wages and tips processed for each employer. These totals are then compared with the totals from tax payments filed by the employer with the IRS on the Employers Quarterly Federal Tax Return (Form 941).

A wage report not returned is classified as "missing"—meaning the IRS has Form 941 data but SSA has not processed W-2 data. SSA sends an initial letter and a follow-up letter, if necessary, requesting the wage reports. If the employer does not respond to the two requests, SSA forwards the case to IRS to assess late penalties.

## **SCOPE AND METHODOLOGY**

Our objective was to evaluate SSA’s effectiveness in tracking magnetic media wage reports that must be returned to employers for correction and resubmission when SSA is unable to process them.

To accomplish our objective, we:

- obtained and reviewed the written procedures at OCO over tracking returned magnetic media wage reports;
- from the universe of 11,490 magnetic media TLCNs received in 1996 that SSA returned to submitters, selected and tracked a judgmental sample of 200 to

determine whether they were processed and whether reports not returned to SSA have been identified through the Modernized Earnings AWR Online Screen Process;

- reviewed applicable sections of SSA's Program Operations Manual System, Modernized Systems Operations Manual, and other material pertaining to magnetic media reports returned to employers;
- observed the receipt and processing of magnetic media submissions at OCO;
- interviewed officials at OCO in the Division of Employer Services and the Center for Systems and Logistics Support;
- interviewed officials at the Office of Systems Requirements; and
- summarized SSA's reasons for rejecting magnetic media wage reports returned to employers for correction and resubmission.

We used a judgmental sample of 200 to accomplish our objective.

Further, we analyzed the universe of 11,490 returned magnetic media TLCNs to determine the number of times SSA returned submissions to the employers for correction and resubmission in order to verify timeliness. In addition, we selected a separate, random sample of 50 TLCNs to review the employers' timeliness in returning the corrected submissions to SSA. We also used this sample to analyze SSA's timeliness in processing the magnetic media wage reports returned to employers for correction and resubmission.

We performed our review at OCO and Headquarters in Baltimore, Maryland, between August 1996 and March 1998. We conducted our review in accordance with generally accepted government auditing standards.

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# RESULTS OF REVIEW

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## SSA CONSISTENTLY TRACKED REJECTED MAGNETIC MEDIA WAGE REPORTS

SSA returned 11,490 magnetic media submissions to employers in Calendar Year<sup>5</sup> (CY) 1996. SSA was able to process 8,948 TLCNs (77.9 percent) after the initial resubmission. SSA returned the remaining 2,542 submissions (22.1 percent) more than once to submitters for correction and resubmission. A submission can be returned additional times if, for example, the magnetic media is damaged. In such a case, SSA notifies the employer they must resubmit the wage report because the disk was unreadable. If the wage report still contains errors when it is resubmitted, SSA returns it again to the employer to be corrected. This continues until the wage report can be processed to “complete” status through the system. Common reasons cited by SSA for rejecting submissions are “unreadable” reports and the use of the incorrect tax year (TY). SSA also rejected magnetic media submissions above established thresholds when the SSNs or names in a report did not match the SSNs and names on SSA’s master file (referred to as the Numident).

The following table displays the number of times SSA returned submissions for correction and resubmission.

**Table 1: Frequency of Processing Returned Submissions  
(CY 1996)**

Number of Resubmissions	Number of TLCNs	Percent of TLCNs
1	8,948	77.9
2	1,618	14.1
3	594	5.2
4	211	1.8
5	76	0.7
6	28	0.2
7	11	0.1
8	4	0.0
<b>Total</b>	<b>11,490</b>	<b>100</b>

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<sup>5</sup> Magnetic media wage reports processed in Calendar Year 1996 mainly contain Tax Year 1995 data, but some of the submissions are from earlier years.

We reviewed the status of a judgmental sample of 200 returned submissions as of March 1998. Of the 200 TLCNs reviewed: 158 were resubmitted and successfully processed; 40 were deleted from the returned submission list because they were controlled under another TLCN, returned to SSA on paper, or sent in error; and 2 were not returned (discussed further below). (See Table 2.)

**Table 2: SSA's Tracking of Returned Submissions in the Office of the Inspector General Sample**

Status	Number of TLCNs	Percentage
Resubmitted and Processed	158	79.0%
Deleted	40	20.0%
Not Returned—Referred to IRS	1	0.5%
Unable to Process	1	0.5%
<b>Total</b>	<b>200</b>	<b>100%</b>

Fifteen employers initially did not return submissions within 65 days of the reject notice. SSA sent follow-up notices to the employers in all cases. Eleven of those submissions were not returned within 124 days. Again, in all cases, SSA attempted to follow up on the employers who were late in returning their corrected wage reports.

Two of the original 200 returned submissions in our sample remained unprocessed despite several attempts by SSA and/or the employers. Of the two submissions, we were able to track one through the Modernized IRS/SSA Reconciliation System. For this submission, SSA sent a reconciliation notice in February 1997 and a follow-up notice 120 days later; when the employer still failed to respond, SSA referred it to IRS. SSA's actions were in accordance with the Agency's policy. In the other case, the employer submitted an incorrect Employer Identification Number and no name. Without either piece of identifying information, SSA was unable to process the submission. Because this submission was for TY 1993, SSA also was unable to identify it through the IRS/SSA Reconciliation System.<sup>6</sup>

### **SSA Is Considering Changes to the Rejection Notice Process**

When there is a submission error, SSA sends a rejection notice explaining the problem with the submission to employers. However, employers are notified of only the first five critical and report correction errors on the submission, even if the submission has more than five errors. This practice was outside the scope of our audit, and thus we did not specifically review it. We observed, however, that the notice has a toll-free number for the submitter to call to obtain all of the error occurrences from a SSA technician.

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<sup>6</sup> SSA put the Modernized IRS/SSA Reconciliation System in place in 1995, in part because of recognized problems in tracking submissions.

SSA's Target Notice Architecture (TNA) determines the number of errors that are disclosed in the return notice to the employer. SSA plans to review the TNA in the SSA Earnings 5-Year Plan to determine the possibility of notifying the employer of all errors in a submission, rather than only the first five errors.

## **MANY EMPLOYERS UNTIMELY IN RESUBMITTING MAGNETIC MEDIA WAGE REPORTS**

Because of the timeliness issue identified in our original sample of 200 submissions, we reviewed a separate random sample of 50 TLCNs to measure employers' timeliness in resubmitting their wage reports. Fifty-eight percent of the sampled submissions were returned within SSA's requirement of 45 days. Thus, 42.0 percent of the magnetic media employers sampled did not comply with SSA's timeliness requirement. These delays required SSA to repeatedly follow up with employers and delayed posting earnings to individuals' records in the MEF. As discussed above, SSA consistently tracked and followed up on overdue resubmissions.

Employers took an average of 46 days to return their rejected submissions to SSA. However, their individual timeliness varied widely, from 4 to 355 days. The following table displays the employers' timeliness in resubmitting the magnetic media wage reports for processing.

**Table 3: Number of Days for Submitters to Return Reports to SSA**

<b>Number of Days</b>	<b>Number of TLCNs</b>	<b>Percentage</b>
0-45	29	58.0%
46-65	8	16.0%
66-120	3	6.0%
over 120	10	20.0%
<b>Total</b>	<b>50</b>	<b>100%</b>

## **SSA's TIMELINESS IN PROCESSING MAGNETIC MEDIA WAGE REPORTS**

SSA's instruction, "Magnetic Media Reporting, Submitting Annual W-2 Copy A Information To The Social Security Administration (TIB-4)," tells employers that SSA ordinarily should be able to process properly prepared magnetic media files within 120 days after receipt. We used the same random sample of 50 TLCNs to determine SSA's success in meeting its processing goal. SSA processed 82.0 percent of the returned magnetic media wage reports in our sample within its goal of 120 days. (See Table 4.)

**Table 4: Time Required for SSA to Process Resubmitted Reports**

<b>Number of Days</b>	<b>Number of TLCNs</b>	<b>Percentage</b>
0-120 days	41	82.0%
over 121 days	9	18.0%
<b>Total</b>	<b>50</b>	<b>100%</b>

The average time SSA took from receipt of the submission to posting was 54 days. Processing time for individual submissions varied from the day of receipt to 373 days, depending on the volume of submissions to be processed and the conditions encountered during processing. (Files with improper format or technical problems may be delayed.) In addition, SSA officials told us their operating procedure is to process submissions with large numbers of individual W-2s first, to maximize posting individual employee wages to their records in the MEF. From that perspective, SSA typically posts 97.0 to 98.0 percent of wage reports within 9 months after the end of the TY, as required for making actuarial projections.

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## **CONCLUSIONS AND RECOMMENDATIONS**

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SSA adequately tracked rejected magnetic media submissions, based on our review of a judgmental sample of 200 cases.

When SSA sends a rejection notice explaining a problem with a submission to an employer, the employer is notified of only the first five critical and report correction errors on the submission, even if the submission has more than five errors. Although we did not specifically review this area, we saw no indication that this practice results in additional rejections. Nevertheless, SSA's plan to review the rejection notices in the SSA Earnings 5-Year Plan to determine the possibility of notifying the employer of all errors in a submission rather than only the first five appears reasonable.

# **APPENDICES**

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**APPENDIX B**

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## **SSA ORGANIZATIONAL CHART**

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