



## SOCIAL SECURITY

Inspector General

November 18, 2002

The Honorable E. Clay Shaw, Jr.  
Chairman, Subcommittee on Social Security  
Committee on Ways and Means  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Shaw:

In response to your September 5, 2002 request, I am pleased to provide you the enclosed report regarding the status of the Social Security Administration's (SSA) Earnings Suspense File (ESF). Our objective was to review the status of the ESF in terms of wages and items as well as to determine the number of items reinstated to earner's accounts from the ESF.

The enclosed report contains information related to:

- Wages and items remaining in the ESF since Tax Year 1937;
- SSA's edit processes designed to remove wages and items from the ESF;
- The volume of wages and items removed from the ESF; and
- SSA's attempts to reduce the size and growth of the ESF.

If you have any questions or would like to be briefed on this issue, please call me or have your staff contact Douglas Cunningham, Executive Assistant, at (202) 358-6319.

Sincerely,



James G. Huse, Jr.

Enclosure

cc:

Jo Anne B. Barnhart

# **CONGRESSIONAL RESPONSE REPORT**

## **Status of the Social Security Administration's Earnings Suspense File**

**A-03-03-23038**



**NOVEMBER 2002**

## **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.**

# *Background*

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In response to a September 5, 2002 request from the Chairman of the Subcommittee on Social Security, we reviewed the status of the Social Security Administration's (SSA) Earnings Suspense File (ESF) in terms of wages and items and determined the number of items reinstated to earner's accounts from the ESF. The enclosed report contains information related to:

- Wages and items remaining in the ESF since Tax Year (TY) 1937;
- SSA's edit processes designed to remove wages and items from the ESF;
- The volume of wages and items removed from the ESF; and
- SSA's attempts to reduce the size and growth of the ESF.

## **ROLE OF THE EARNINGS SUSPENSE FILE**

Title II of the Social Security Act requires SSA to maintain records of wage amounts employers pay to individuals. Employers report their employees' wages to SSA at the conclusion of each TY. Wages on those employer reports containing invalid names and/or Social Security numbers (SSN) cannot be posted to an individual's earnings record in SSA's Master Earnings File (MEF).<sup>1</sup> Instead, these wages are placed in the ESF—a repository for unmatched wages.<sup>2</sup> Suspended wages can affect a worker's eligibility for and/or the amount of retirement, disability, or survivor benefits. In addition, when wage reports cannot be matched to the correct individual, both SSA and the employer incur additional administrative costs in their efforts to correct unmatched wage reports.

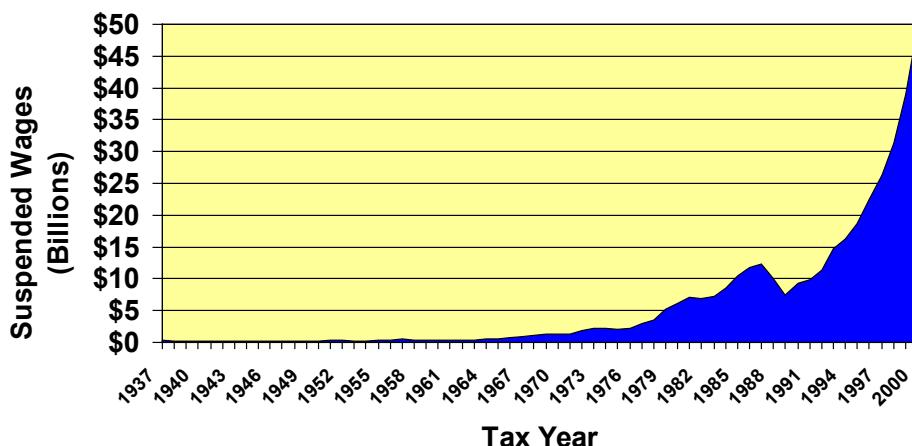
As of July 2002, the ESF contained approximately 236 million wage items totaling about \$374 billion related to TYS 1937 through 2000 (see Figure 1). In TY 2000 alone, 9.6 million items and \$49 billion in wages were posted to the ESF. Removal of wage items and their associated dollar value from the ESF only occurs when the wages can be matched and posted to an individual's MEF.

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<sup>1</sup> The MEF contains all earnings data reported by employers and self-employed individuals. These data are used to calculate the Social Security benefits due an individual with an earnings record.

<sup>2</sup> SSA is also required to maintain the wages of self-employed individuals and has a separate ESF for these submissions. We are not commenting on the self-employment process in this report.

**FIGURE 1: STATUS OF THE EARNINGS SUSPENSE FILE**  
**(Tax Years 1937-2000)**



## EARLIER ANALYSIS OF THE ESF

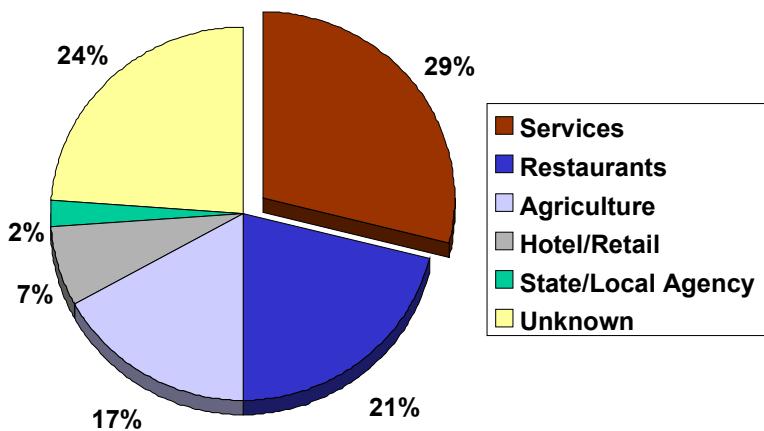
In a March 2001 paper on the ESF,<sup>3</sup> SSA noted that the source of the suspended items can be viewed from various perspectives. For example, nine states accounted for 70 percent of the suspended items—California alone contributed 35 percent—while three industries account for 46 percent of the items. SSA noted that many suspended items involve the agricultural industry, which has transient employees who may not have work authorizations from the Immigration and Naturalization Service (INS). Other high turnover industries, such as fast food, restaurants and other service industries, have similar profiles. Frequent job and residential changes are not uncommon with members of these workforces. These actions complicate name/SSN correction efforts when recontacts are necessary.

We have found similar trends in our reviews. In a 1999 audit,<sup>4</sup> we analyzed SSA's ESF postings for TYs 1993 through 1996 (the most recent data available at the time of our audit) to develop a database of the 100 employers who had the most suspended wage items over a 4-year period. Our audit showed that 84 of the 100 employers experienced increases in the number of suspended *Wage and Tax Statements* (Form W-2) for their employees, including 27 employers with at least a 100-percent increase. Many of the employers are in industries that traditionally rely on low-wage, highly transient workers. Figure 2 shows the distribution, by industry, of these 100 employers.

<sup>3</sup> SSA Key Initiative Plan and Schedule: Reduce Earnings Suspense File (KI #46), March 15, 2001.

<sup>4</sup> Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items (A-03-98-31009), September 1999.

**FIGURE 2: DISTRIBUTION OF 100 EMPLOYERS IN ESF**  
 (Tax Years 1993-1996)



In our January 2001 review of the agricultural industry,<sup>5</sup> we found that, during TYs 1996 through 1998, the 20 agricultural employers we reviewed submitted over 150,000 wage items for which the employee's name and/or SSN did not match SSA's records. These items represented almost \$250 million in suspended earnings over the 3-year period. About 6 of every 10 wage items submitted by these agricultural employers did not match the names/SSNs contained in SSA's files.

In addition, we identified various types of reporting irregularities. During our review period, 2 employers submitted over 7,000 SSNs that SSA had never issued. Another employer submitted more than 900 duplicate SSNs over the 3-year period. While we recognize there are legitimate reasons why a worker's name and SSN may not match SSA's files—such as name changes—we believe the magnitude of erroneous or incorrect wage reporting is indicative of SSN misuse. SSA senior staff acknowledged the intentional misuse of SSNs by noncitizens not authorized to work is a major contributor to the ESF's growth.

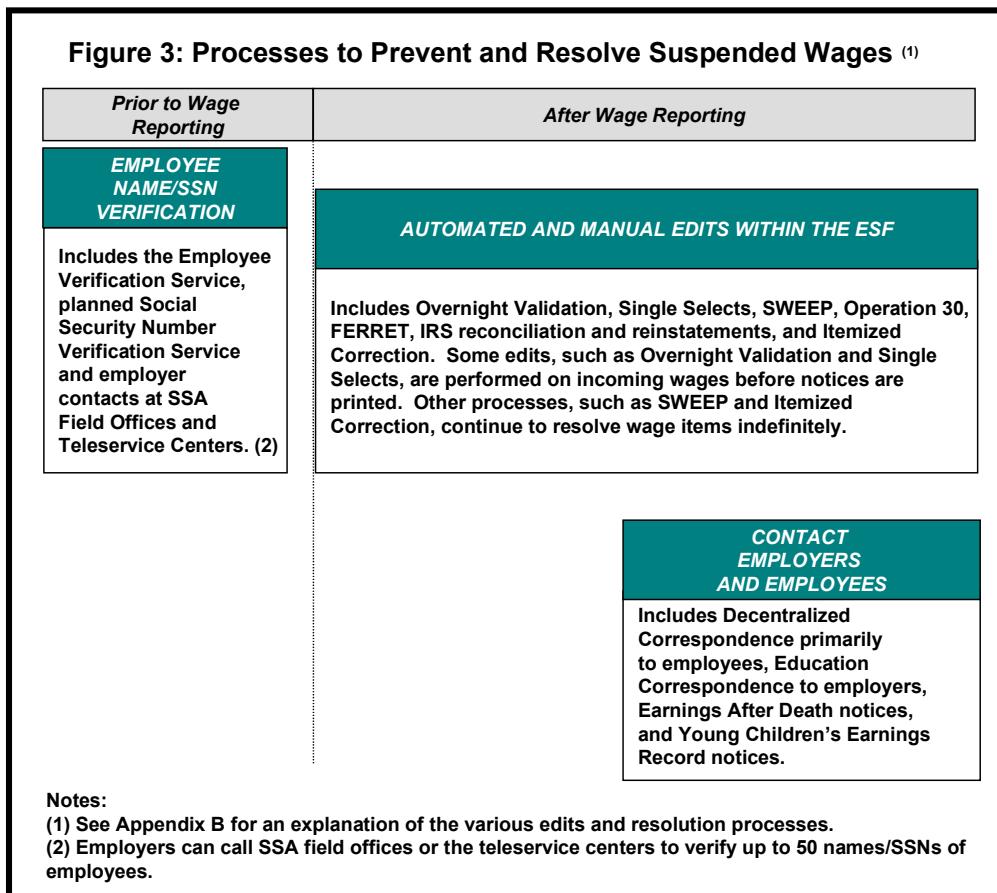
## ESF GROWTH, PREVENTIVE MEASURES AND RESOLUTION

Our January 2001 report recommended that SSA establish performance goals and measures in accordance with the Government Performance and Results Act (GPRA) that track SSA's success in reducing the growth and size of the ESF. Presenting ESF information among its performance measures will raise SSA management and Congress' awareness of the growth in the ESF and motivate SSA to reprioritize ESF projects so they are completed sooner.

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<sup>5</sup> *Obstacles to Reducing Social Security Number Misuse in the Agricultural Industry* (A-08-99-41004), January 2001.

While SSA has limited control over the factors that cause the volume of erroneous wage reports submitted each year, we noted in a May 2002 report<sup>6</sup> that the Agency still has some ability to improve the process. Specifically, SSA can improve wage reporting by (1) educating employers on reporting criteria; (2) identifying and resolving employer reporting problems; and (3) coordinating with the Internal Revenue Service (IRS) on employers who continually submit erroneous wage reports. For example, SSA can encourage greater use of its SSN verification programs—such as the Employee Verification Service (EVS)—to ensure employers submit wage reports with valid name and SSN combinations. In a September 2001 report,<sup>7</sup> we noted how one employer could have prevented \$10.2 million in wages from going into the ESF if the employer had used SSA's EVS. In addition, a GPRA measure on the ESF may indicate to management over time whether the problem is alleviated by ongoing Agency efforts. However, should these preventive measures fail to improve employer reporting, SSA has a number of edit and resolution processes in place to identify the owners of wage items with mismatched names and/or SSNs (see Figure 3 for a flowchart showing the various processes in place to correct wage items).



<sup>6</sup> Management Advisory Report: Recent Efforts to Reduce the Size and Growth of the Social Security Administration's Earnings Suspense File, (A-03-01-30035), May 2002.

<sup>7</sup> Review of Service Industry Employer with Wage Reporting Problems (A-03-00-10022), September 2001.

# *Results of Review*

The following sections provide information on (1) the composition of the ESF; (2) the growth of the ESF; (3) wages removed from the ESF; and (3) SSA's recent efforts to reduce the size of the ESF. We also provide additional detail in the appendices to this report.

## **COMPOSITION OF THE ESF**

A review of ESF data as of July 2002, indicates the following.

- Approximately \$14.4 billion in suspended wages and 84 million suspended wage items remain in the ESF for TYs 1937 through 1970.
- Suspended wages for TYs 1971 through 2000 represent 96 percent of the total ESF wages, while the suspended wage items for the same period represent only 64.5 percent of total ESF items.
- The average wage in the ESF for TYs 1937 through 1940 was approximately \$69, while the average suspended wage in TY 2000 was approximately \$5,148.<sup>8</sup>

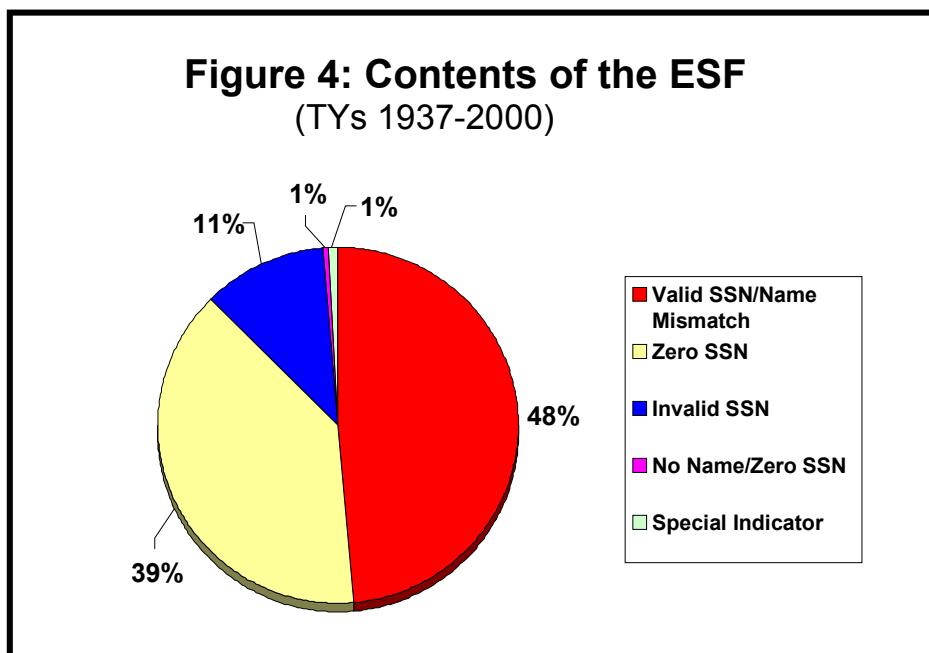
**Table 1: ESF Wages and Items (TYs 1937-2000)**

Tax Years	Total Suspended Wages	Total Suspended Wage Items
1937-1940	\$ 704,315,912	10,274,939
1941-1950	2,095,008,454	20,262,484
1951-1960	3,838,657,417	22,914,949
1961-1970	7,794,058,409	30,488,714
1971-1980	29,732,945,299	47,370,236
1981-1990	91,188,665,169	44,878,334
1991-2000	239,143,905,605	60,400,315
<b>Total</b>	<b>\$374,497,556,265</b>	<b>236,589,971</b>

The ESF wage items possess a number of characteristics that may impact the likelihood of their being reinstated as well as provide information on potential SSN misuse. For example, under current edit processes, SSA would have greater difficulty in resolving wages reported under an SSN of all zeroes than if two digits in the SSN were

<sup>8</sup> This does not factor in inflation, which would have caused all wages, including suspended wages, to increase over the years. In addition, SSA staff noted that although the average wage item in the ESF for TYs 1951-1990 has a much lower dollar value than ESF items since TY 1990, the earnings since 1951 are "indexed" to allow for the rise in wage levels. Therefore, reinstatement of these older ESF items to the correct earnings records would have greater impact on the benefit amount than the original dollar value of the earnings items in the ESF.

transposed.<sup>9</sup> In addition, SSNs of all zeroes may represent a wage reporting problem with the employer, whereas wages reported under a valid SSN with a mismatched name may indicate a transposition error or even some form of SSN misuse. In Figure 4, we provide a breakout of the contents of the items in the ESF from TYs 1937 through 2000.

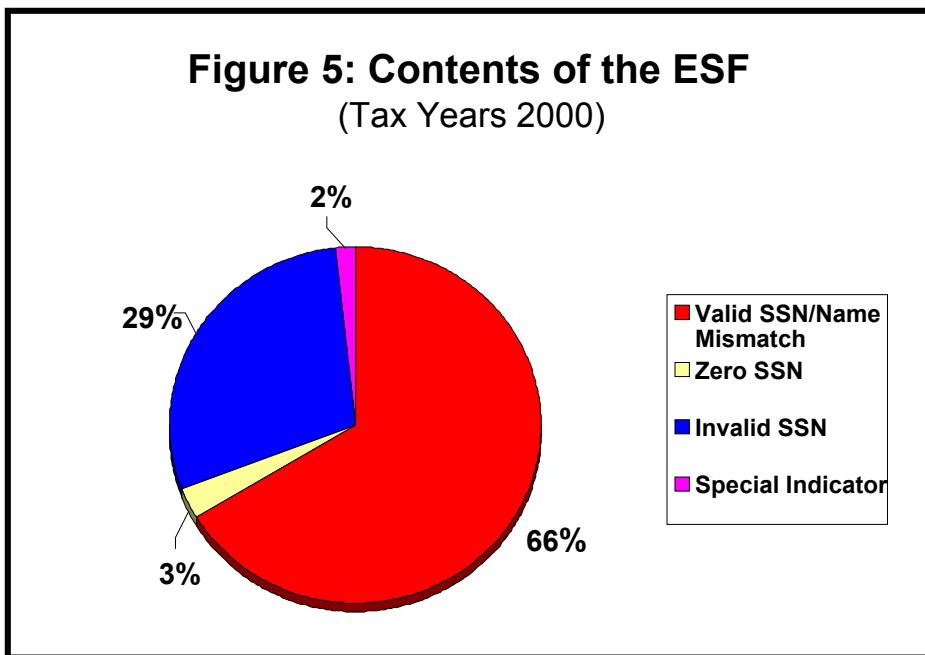


The largest single volume of items in the ESF (48 percent) relates to valid SSNs where the provided name did not match SSA's records. The other categories of suspended items include:

- 39 percent of the suspended items related to SSNs that were all zeroes (zero SSNs);
- 11 percent of the suspended items had an invalid (unissued) SSN;
- 1 percent of the suspended items had no name and zero SSNs; and
- 1 percent of the suspended items had a special indicator, that relates to items suspended due to the Earnings After Death or Young Children's Earnings Records edits (see Appendix B).

<sup>9</sup> SSA's Single Selects edit process can correct transposed SSNs.

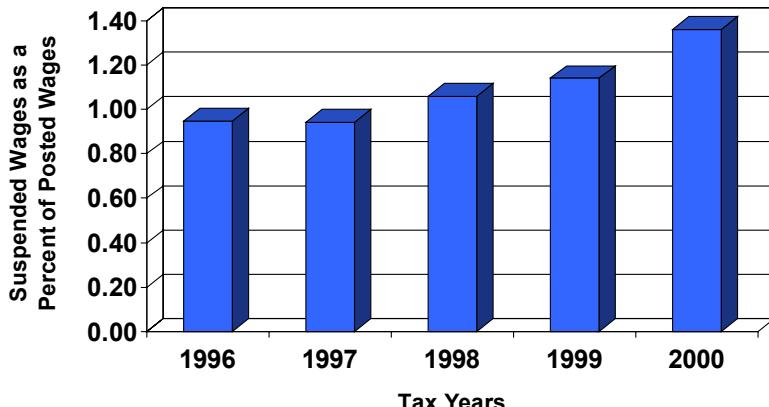
A similar breakout of the TY 2000 suspended items shows a somewhat different picture (see Figure 5). For example, only 3 percent of the suspended items relate to zero SSNs, and two-thirds of the suspended items had valid SSNs without a matching name. While SSA does not maintain ESF data for a similar point-in-time comparison of all TYs since 1937, it appears the high volume of zero SSNs in the breakout for TYs 1937 to 2000 represents suspended items that cannot be resolved under current edit processes and therefore accumulate in the ESF over time.



## GROWTH OF THE ESF

The ESF continues to grow in both real and relative terms. In TY 1998, the ESF exceeded 1 percent of total reported wages, and it continues to grow in relative terms. For example, in TY 2000, approximately \$4.3 trillion in wages were reported to SSA, and about \$58.5 billion (1.36 percent) of these wages went into the ESF. In Figure 6, we present the 5-year growth of ESF wages as a percentage of total reported wages.

**Figure 6: Percent of Suspended Wages  
Compared to Total Reported Wages  
(Tax Years 1996-2000)**



Note: Total reported wages includes wages going into the Master Earnings Files as well as the ESF.

## WAGES REMOVED FROM THE ESF

Over the 4-year period ended in July 2002, SSA removed approximately \$10 billion in suspended wages and approximately 1.7 million in suspended wage items from the ESF for TYs 1937 through 1996. This reduction represented approximately 4 percent of the suspended wages and 1 percent of suspended wage items for TYs 1937 through 1996. See Appendix D for a chart showing the wages and items removed for each TY.

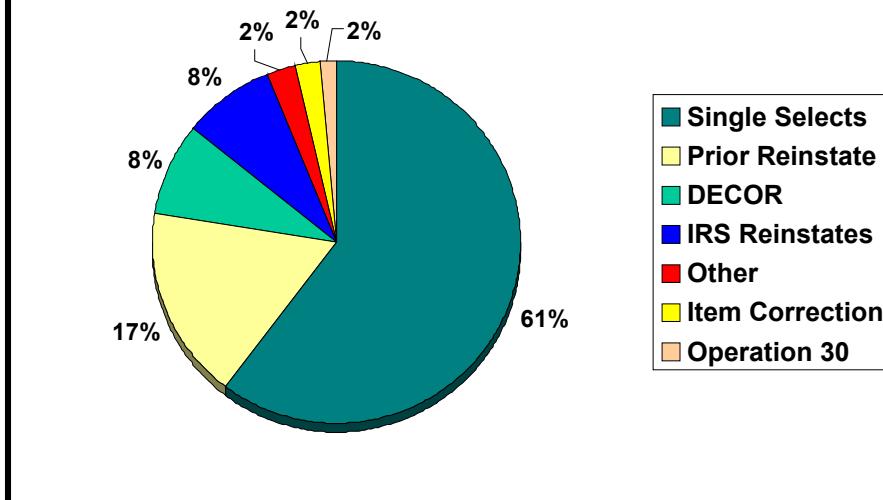
We also reviewed SSA's ESF Reinstates File to determine what SSA removed from the ESF for TYs 1978 through 2000 (see Appendix E). We found that SSA had removed approximately 82.7 million items from the ESF for this period or an average of 3.6 million suspended items, annually. In addition, while the Reinstates File does not provide a complete picture of all reinstatements,<sup>10</sup> it does indicate that SSA eventually resolved over 41 percent of suspended items during this period.

For purposes of illustration, we provide a breakdown of the approximately 2.6 million items reinstated in TY 1998 in Figure 7. This information was taken from SSA's Reinstates File. Most of the TY 1998 reinstated items relate to SSA's Single Selects edit—which primarily catches transposition and single-digit errors of SSNs.<sup>11</sup>

<sup>10</sup> The ESF Reinstates File was not designed to capture all reinstated items, but rather captures the latest entity in a series of reinstatements so that this information could be used in resolving similar problems in the future.

<sup>11</sup> SSA staff noted that Single Select is performed throughout the resolution process—both before and after an item has gone into the ESF.

**Figure 7: Reinstated Items by Edit Process  
(Tax Year 1998)**



Decentralized correspondence (DECOR) sent to employees/employers and Internal Revenue Service (IRS) Reinstate comprise the next two most successful edits.<sup>12</sup> For a full description of these edits, see Appendix B.

## RECENT SSA EFFORTS TO REDUCE ESF SIZE AND GROWTH

SSA has recently taken a number of steps to reduce size and growth of the ESF. Some of these steps include the following.

- **Social Security Number Verification System (SSNVS):** SSA plans to expand its EVS program to include an on-line service called SSNVS. This service is being piloted among a few employers, but SSA hopes it will encourage more employers to use SSA's name/SSN verification program for new employees. Our September 2002 report on EVS<sup>13</sup> for registered users noted that only 394 of approximately 6.5 million employers in the United States were using SSA's EVS in the last 3 years. We also noted that SSA did not disclose pertinent information that could have assisted users. Specifically, SSA did not inform employers when a submitted SSN belonged to a deceased individual or when the SSN was issued to the individual for nonwork purposes. SSA has stated it intends to modify both EVS and SSNVS to disclose the pertinent information to employers.

<sup>12</sup> Prior reinstates are not included because they are a reflection of past activity and not a new edit.

<sup>13</sup> *The Social Security Administration's Employee Verification Service for Registered Employers* (A-03-02-22008), September 2002.

- **Educational Correspondence:** SSA sends “no match” letters—or educational correspondence—to all employers who submit W-2s containing name and/or SSN information that does not agree with SSA’s records. Although SSA has been sending educational correspondence letters to specific employers since 1994, in TY 2001, SSA began sending letters to all employers where the name and/or SSN on just one W-2 did not agree with SSA’s records. Before this, SSA only sent letters to employers who submitted 10 or more W-2s that SSA could not process, and the unprocessable W-2s represented more than 10 percent of the employer’s total. This earlier criteria overlooked small employers or employers who submitted only a few records that SSA could not process.
- **New ESF Edits:** SSA is modifying its edits to locate the owners of suspended wages. Whereas previous edits used only the name and SSN of the suspended wage, SSA stated that the new processes would use information stored on the earnings records and benefit records. As a result, in addition to matching names and SSNs, the processes will use employment history and earnings patterns to help identify the number holder related to the suspended items. SSA also noted that the new processes should also be able to resolve millions of wage items reported with a “zero” SSN, which have proven to be the most difficult items to correct. SSA expects that the new processes will post many millions of ESF items to the proper earnings records and result in benefit increases to current and future beneficiaries.

SSA's Office of Systems recently reported that it has already used a variation of the processes noted above as part of its recent SWEEP operation. The operation reinstated an additional 600,000 items in the fall of 2002.

# *Conclusions*

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We commend SSA for its efforts to reduce the size and growth of the ESF. The ESF continues to grow in both real and relative terms, and it will continue to need management's attention. While SSA cannot control all of the factors related to the ESF's growth, we believe our earlier recommendations are still valid and would assist SSA in resolving some of the issues related to accurately posting earnings.

Previous Office of the Inspector General recommendations for reducing the size and growth of the ESF include the following:

- Establish GPRA performance goals and measures that track SSA's success in reducing the growth and size of the ESF.
- Seek legislative authority to provide SSA the tools to require chronic problem employers to use EVS.
- Strengthen efforts with the IRS and INS to identify problem employers, given that some large employers have as much as two-thirds of their wage reports going into suspense.
- Pursue with the IRS penalties on chronic problem employers and, should the IRS fail to impose such penalties, seek SSA sanctioning authority.
- Develop a management information system to identify employers who have their wage reports force processed and identify the number of times their wage reports are force processed.

See Appendix F for SSA's remarks on these prior recommendations.

# *Appendices*

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**Appendix A – Acronyms**

**Appendix B – Earnings Suspense File Edit and Resolution Processes**

**Appendix C – Scope and Methodology**

**Appendix D – Reductions in the Earnings Suspense File (4-Year Analysis for Tax Years 1937 - 1996)**

**Appendix E – Earnings Suspense File Reinstatements**

*(Tax Years 1978 – 2000)*

**Appendix F – SSA Remarks on Prior Earnings Suspense File Recommendations**

**Appendix G – Prior Office of the Inspector General Reports**

**Appendix H – OIG Contacts and Staff Acknowledgements**

## **Appendix A**

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### **Acronyms**

DOB	Date of Birth
DECOR	Decentralized Correspondence
EAD	Earnings After Death
EDCOR	Educational Correspondence
EM 2.8	Earnings Modernization 2.8
ESF	Earnings Suspense File
EVS	Employee Verification Service
INS	Immigration and Naturalization Service
IRS	Internal Revenue Service
MEF	Master Earnings File
OIG	Office of the Inspector General
SSA	Social Security Administration
SSN	Social Security Number
SSNVS	Social Security Number Verification Service
TY	Tax Year
WBDOC	Wilkes-Barre Data Operations Center
YCER	Young Children's Earnings Records

# Earnings Suspense File Edit and Resolution Processes

The Social Security Administration (SSA) uses a variety of editing routines and other processes to correct and post many of the wage items with name/Social Security number (SSN) mismatches or other problems, both before and after they go into the Earnings Suspense File (ESF). Some of these processes are described below.

- **Overnight Validation:** This process basically identifies name/SSN mismatches on the reporting year's paper *Wage and Tax Statement* (Form W-2) before routine edits are performed. Any processed name/SSN mismatches go through the Single Selects operation described below. Suspended items not corrected by Single Selects are highlighted in a return electronic transmission from the National Computer Center to the Wilkes-Barre Data Operations Center (WBDOC). WBDOC technicians look at the image of the original W-2 and re-key any incorrect items. They also input the employee address to all returned items—whether corrected or not—for later decentralized correspondence (DECOR) and FERRET activities.
- **Single Selects:** This operation assumes the reported name is correct and the SSN is wrong. Many errors are caused when the name is correct, but there is a transposition error in the SSN. The operation creates "ghost" records from combinations of numbers in the reported SSN with the reported name. The system then screens these records against their related Numident records—the Numident file is SSA's database of all valid SSNs. If one and only one Numident matches the reported name, the item is reinstated. This operation prevents about 2.2 million wage items from going to the ESF, annually.
- **Operation 30:** This process identifies ESF items with valid SSNs and connects SSA's Numident records with the ESF item. It assumes the SSN is correct, but the name is wrong. Technical staff perform a sight comparison to review reported data against on-line SSA records and make judgments to accept wage items for Master Earnings File (MEF) posting or send the data back to the ESF.
- **DECOR:** When wage items reach the ESF, SSA's system generates notices to employees and employers. The main purpose of DECOR notices is to query employees and employers to resolve SSN and/or name discrepancies. While these notices are usually mailed to employees, letters are mailed to an employer if there is no address for the employee. SSA reviews DECOR responses to remove items from the ESF for posting to an individual's MEF record. If individuals do not respond to DECOR notices, their information goes through the FERRET operation. In TY 2000, DECOR generated and mailed about 9.5 million notices.

In a recent report on SSA's DECOR process,<sup>1</sup> we found that 9.5 percent of Tax Year (TY) 1998 suspended wage items were reinstated through all reinstatement processes, and that DECOR was one of the more effective means of identifying the owners of suspended wage items. The DECOR process reinstated 3.5 percent of suspended items and was the third most effective method for reinstating our sample items of SSA's seven primary manual and automated reinstatement processes in that year.

- **Educational Correspondence (EDCOR):** When SSA processes a wage report with a name and/or SSN that does not match SSA's records, SSA generates a notice to the employer. These EDCOR notices state that SSA received wage items that could not be validated. EDCOR notices list up to 500 SSNs but do not provide names. SSA requests that employers file corrected W-2(s) to correct the error(s). SSA has recently modified the EDCOR process to expand the number of employers receiving correspondence.
- **FERRET:** FERRET is a periodic electronic operation that uses SSA and Internal Revenue Service (IRS) records to make reinstatements from the ESF to wage earners' records. WBDOC creates the FERRET file—basically an address file—from the non-responder DECOR file. The FERRET file is processed against IRS tax returns for matches to address data. Names or parts of names are then propagated from the IRS file to create possible reinstatements. These possible matches are then screened using SSA's SSN validation process.
- **SWEEP:** SWEEP is an electronic operation that periodically uses SSA's latest system enhancements and validation rules, including the more than 20 routine edits used on incoming wages, to remove items from the ESF and reinstate them to wage earners' MEF records. This edit is being updated with additional validation rules described in the "New Edits" section below.
- **Item Correction:** This process allows SSA staff to correct the earnings record of an individual through a system called Earnings Modernization 2.8 (EM 2.8). The EM 2.8 system is a computerized process for adjusting an individual's earnings record thereby helping SSA establish and maintain an accurate and complete MEF. This system allows SSA employees to add, change, move, or delete an individual's earnings overnight via on-line interactive screens. This is basically a paperless system—with proofs and rationale recorded electronically after an initial inspection by an SSA employee(s).
- **Earnings After Death (EAD):** SSA also has processes in place to detect unusual earnings reports—such as instances where earnings relate to someone recorded as deceased on SSA's records. Under the EAD process, when a date of death is present on the Numident, all earnings items reported after the year of death are placed in the ESF. The earnings are also transmitted to an EAD investigate file so

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<sup>1</sup> *The Effectiveness of SSA's Decentralized Correspondence Process* (A-03-01-11034), July 2002.

that notices can be printed and mailed to employers and/or earners. SSA sends EAD notices to employers, employees, and self-employed individuals. Employer responses are returned to SSA for processing. If the employer states the individual was working for them, SSA sends a notice to the employee requesting that he or she visit a field office to correct his or her earnings information. At the field office, staff interview the individual and verify his or her identification. If the evidence appears valid, SSA personnel reinstate the wages to the proper MEF account. If the employer states the wage earner is deceased, SSA informs the employer to refund the employee's share of the Social Security taxes to the employee's estate or next of kin, and the relevant wages will remain in the ESF. Notices sent to employees and self-employed earners request that the individuals call SSA or visit a field office to resolve the earnings problem.

In our 2002 audit of the EAD process,<sup>2</sup> we found that SSA's EAD edit was not effective in resolving TY 1998 suspended earnings items. While SSA reinstated approximately 6 percent of the suspended items in our sample, another 22 percent of the suspended items could also have been reinstated. In addition, 33 percent of the sample items contained instances where it appears someone else was using the deceased individual's name and/or SSN. Our review of the EAD suspended items for TY 1998 also indicated that 7 of the top 10 contributors to the file were from the entertainment industry. Better communication with this industry could reduce the number of suspended items going into the ESF.

- **Young Children's Earnings Records (YCER):** Another unusual earnings pattern monitored by SSA relates to young earners. Under the YCER process, SSA checks the date of birth for the SSN on each earnings report. If a date of birth indicates that the numberholder of the SSN is a child age 6 or younger, the earnings will be placed into the ESF. When the wage reporting process is complete, a YCER investigate file is generated to determine whether the earnings belong to the reported SSN; i.e., a child age 6 or younger.

SSA contacts the employer to verify the earner's identity. If the employer states the numberholder's SSN, name and date of birth (DOB) agree with SSA's records, the wages are reinstated to the numberholder. If the employer states the numberholder's name and SSN are the same as SSA's records, but the DOB is different, a form is sent to the numberholder advising him or her to contact the local SSA office to correct the discrepancy. If the employer states the name and/or SSN is different from SSA's records, the information is further researched. If the employer does not return the form or states that the numberholder of the SSN did not work for them, a letter is sent to the numberholder of the SSN asking him or her to contact the local SSA field office.

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<sup>2</sup> *Effectiveness of the Social Security Administration's Earnings After Death Process (A-03-01-11035)*, August 2002.

- **Reinstatements from the IRS:** While SSA is attempting to resolve mismatched names and SSNs within the ESF, the IRS is performing a similar process. The IRS provides SSA a file containing resolved mismatches so that SSA can use this information to locate the owners of suspended items in the ESF.
- **SSA/IRS Earnings Reconciliation Process:** The SSA/IRS earnings reconciliation process compares employee wage data submitted to the IRS to wage data submitted to SSA. Wage data are submitted to both agencies by employers, their representatives, third parties and agents. When more wages are reported to the IRS than to SSA, SSA is concerned that employees' earnings are not recorded correctly in the Agency's records. SSA examines these cases and attempts to resolve any difference without contacting the employer. When this effort is unsuccessful, SSA sends a notice and questionnaire to the employer, requesting information to resolve the case. If SSA does not receive a response within 45 days, the employer is sent a second notice. When no response is received after the second notice, the IRS is responsible for contacting the employer and may impose penalties, if necessary.
- **New Edits:** SSA is developing new edit routines that take advantage of other information provided on W-2s—such as the Employer Identification Number<sup>3</sup>—and matching this information to data in other SSA systems. SSA hopes to reinstate additional suspended items using these new edits.

Further, SSA annually has thousands of contacts with employers to help them report wages correctly. For example, the Agency estimates it received over 200,000 calls from employers in Fiscal Year 1999.

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<sup>3</sup> The Employer Identification Number is a nine-digit number assigned to an employer by the IRS for tax-reporting purposes.

### **Scope and Methodology**

To review the status of the Social Security Administration's (SSA) Earnings Suspense File (ESF) and determine the number of items reinstated to earner's accounts from the ESF, we:

- Reviewed policies and procedures regarding the ESF.
- Reviewed earlier management reports, reviews, and/or testimony completed on the ESF.
- Obtained from SSA a schedule of wages and wage items in the ESF as of July 2002. We also utilized earlier ESF schedules for purposes of comparison.
- Obtained from SSA a copy of the ESF Reinstates File as of March 2002 and sorted this information to determine the number of items reinstated from the ESF to the Master Earnings File, and the reason for this reinstatement.
- Identified processes that SSA uses to remove items from the ESF.

Our audit did not include a test of information systems to verify the completeness and accuracy of the ESF files. The entity responsible for the maintenance of the ESF is the Earnings Records Maintenance Branch under the Deputy Commissioner of Systems. Our work was conducted at the Office of Audit in Philadelphia, Pennsylvania, during September 2002. We conducted our review in accordance with generally accepted government auditing standards.

## Appendix D

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### Reductions in the Earnings Suspense File (4-Year Analysis for Tax Years 1937–1996)

	STATUS AS OF MAY 1998		STATUS AS OF JULY 2002			
Tax Year	Total Suspended Wages	Total Suspended Wage Items	Total Suspended Wages	Total Suspended Wage Items	Decrease in Wages	Decrease in Wage Items
1937	\$ 320,264,533	4,778,952	\$ 320,260,424	4,778,924	\$ 4,109	28
1938	152,539,279	2,359,633	152,536,852	2,359,592	2,427	41
1939	128,806,444	1,785,755	128,802,214	1,785,732	4,230	23
1940	102,719,879	1,350,734	102,716,422	1,350,691	3,457	43
1941	163,506,294	2,004,468	163,495,166	2,004,325	11,128	143
1942	236,382,329	2,559,846	236,358,430	2,559,601	23,899	245
1943	235,288,917	2,419,184	235,246,511	2,418,896	42,406	288
1944	180,162,922	1,896,135	180,134,213	1,895,929	28,709	206
1945	195,588,632	2,025,257	195,552,613	2,025,036	36,019	221
1946	218,249,940	2,130,854	218,216,369	2,130,607	33,571	247
1947	225,180,734	1,968,573	225,140,868	1,968,354	39,866	219
1948	241,097,302	2,004,376	241,064,418	2,004,195	32,884	181
1949	187,103,301	1,560,863	187,082,497	1,560,693	20,804	170
1950	212,747,026	1,694,994	212,717,370	1,694,848	29,656	146
1951	332,926,787	2,470,175	332,886,810	2,469,939	39,977	236
1952	314,902,823	2,360,058	314,864,221	2,359,864	38,602	194
1953	277,641,883	2,042,426	277,617,387	2,042,230	24,496	196
1954	256,809,991	1,730,839	256,785,806	1,730,669	24,185	170
1955	419,689,844	2,363,876	419,538,295	2,363,356	151,549	520
1956	441,557,662	2,514,765	441,484,768	2,514,403	72,894	362
1957	483,006,346	2,541,925	481,959,682	2,538,827	1,046,664	3,098
1958	427,693,392	2,234,603	427,127,728	2,233,002	565,664	1,601
1959	456,848,009	2,399,100	455,456,659	2,397,871	1,391,350	1,229
1960	431,532,350	2,266,392	430,936,060	2,264,788	596,290	1,604
1961	390,474,207	2,044,470	389,970,120	2,043,279	504,087	1,191
1962	421,544,702	2,190,150	421,110,254	2,188,914	434,448	1,236
1963	424,889,796	2,149,239	424,550,503	2,148,361	339,293	878
1964	480,850,508	2,335,007	480,433,865	2,334,066	416,643	941
1965	574,081,537	2,651,885	573,725,701	2,650,974	355,836	911
1966	774,383,410	3,349,310	773,658,191	3,347,885	725,219	1,425
1967	974,888,740	3,584,662	973,143,307	3,581,875	1,745,433	2,787
1968	1,104,327,311	3,909,973	1,102,814,632	3,907,556	1,512,679	2,417
1969	1,298,236,741	4,240,045	1,296,462,118	4,237,477	1,774,623	2,568
1970	1,360,185,099	4,050,683	1,358,189,720	4,048,327	1,995,379	2,356
1971	1,372,593,747	3,873,634	1,370,541,032	3,871,222	2,052,715	2,412
1972	1,776,231,645	4,821,906	1,772,163,679	4,818,535	4,067,966	3,371
1973	2,169,804,918	5,717,692	2,165,091,310	5,712,340	4,713,608	5,352
1974	2,205,525,333	5,304,832	2,199,334,845	5,298,643	6,190,488	6,189
1975	1,972,550,232	4,141,611	1,966,708,835	4,136,135	5,841,397	5,476
1976	2,269,670,368	4,405,552	2,259,797,842	4,397,316	9,872,526	8,236

	STATUS AS OF MAY 1998		STATUS AS OF JULY 2002			
Tax Year	Total Suspended Wages	Total Suspended Wage Items	Total Suspended Wages	Total Suspended Wage Items	Decrease in Wages	Decrease in Wage Items
1977	3,040,712,488	5,239,091	3,019,704,659	5,222,732	21,007,829	16,359
1978	3,694,586,115	4,297,280	3,604,177,150	4,261,037	90,408,965	36,243
1979	5,327,442,603	4,974,503	5,159,768,359	4,901,557	167,674,244	72,946
1980	6,374,544,342	4,794,316	6,215,657,589	4,750,719	158,886,753	43,597
1981	7,372,452,293	4,735,823	7,086,371,976	4,674,988	286,080,317	60,835
1982	7,068,227,556	4,110,812	6,836,337,045	4,058,655	231,890,511	52,157
1983	7,579,861,389	4,081,853	7,323,021,060	4,030,382	256,840,329	51,471
1984	8,759,959,634	4,571,820	8,492,804,027	4,516,980	267,155,607	54,840
1985	10,891,750,974	5,426,446	10,486,891,755	5,327,009	404,859,219	99,437
1986	12,203,069,280	5,740,295	11,793,699,290	5,643,803	409,369,990	96,492
1987	12,978,550,313	5,398,331	12,361,236,933	5,273,404	617,313,380	124,927
1988	10,585,451,131	4,833,266	10,097,109,746	4,730,881	488,341,385	102,385
1989	7,851,713,779	3,213,693	7,424,530,035	3,124,947	427,183,744	88,746
1990	9,769,245,835	3,589,593	9,286,663,303	3,497,285	482,582,532	92,308
1991	10,415,509,909	3,458,333	9,819,241,451	3,360,453	596,268,458	97,880
1992	12,228,795,482	4,072,043	11,426,894,284	3,932,560	801,901,198	139,483
1993	15,721,312,276	4,922,467	14,757,140,537	4,791,851	964,171,739	130,616
1994	17,217,816,645	5,217,399	16,260,016,741	5,095,635	957,799,904	121,764
1995	19,784,660,359	5,647,471	18,657,123,092	5,529,921	1,127,537,267	117,550
1996	23,498,443,223	6,143,975	22,295,985,657	6,118,639	1,202,457,566	25,336
<b>Totals</b>	<b>\$238,576,590,539</b>	<b>206,703,244</b>	<b>\$228,570,052,426</b>	<b>205,018,715</b>	<b>\$10,006,538,113</b>	<b>1,684,529</b>

## Appendix E

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### Earnings Suspense File Reinstatements (Tax Year 1978–2000)

Tax Year	Total Items Initially Suspended (1)	Items Reinstated (2)	Total Items in Suspense as of July 2002	Total Wages in Suspended as of July 2002
1978	8,804,772	4,543,735	4,261,037	\$3,604,177,150
1979	9,816,811	4,915,254	4,901,557	\$5,159,768,359
1980	9,309,242	4,558,523	4,750,719	\$6,215,657,589
1981	8,894,100	4,219,112	4,674,988	\$7,086,371,976
1982	7,675,678	3,625,835	4,058,655	\$6,836,337,045
1983	7,890,966	3,860,584	4,030,382	\$7,323,021,060
1984	8,761,468	4,244,488	4,516,980	\$8,492,804,027
1985	10,002,093	4,675,084	5,327,009	\$10,486,891,755
1986	10,516,134	4,872,331	5,643,803	\$11,793,699,290
1987	9,589,138	4,315,734	5,273,404	\$12,361,236,932
1988	8,357,128	3,626,247	4,730,881	\$10,097,109,746
1989	6,756,693	3,631,746	3,124,947	\$7,424,530,035
1990	7,134,883	3,637,598	3,497,285	\$9,286,663,303
1991	6,236,239	2,875,786	3,360,453	\$9,819,241,451
1992	6,463,710	2,531,150	3,932,560	\$11,426,894,284
1993	7,129,459	2,337,608	4,791,851	\$14,757,140,537
1994	8,522,870	3,427,235	5,095,635	\$16,260,016,741
1995	8,840,355	3,310,434	5,529,921	\$18,657,123,092
1996	9,025,530	2,906,891	6,118,639	\$22,295,985,657
1997	9,277,595	2,771,421	6,506,174	\$26,222,918,498
1998	9,782,741	2,646,073	7,136,668	\$31,280,270,975
1999	11,045,713	2,713,460	8,332,253	\$39,026,283,645
2000	12,075,357	2,479,196	9,596,161	\$49,398,030,726
<b>Total (3)</b>	<b>201,908,675</b>	<b>82,725,525</b>	<b>119,191,962</b>	<b>\$345,312,173,873</b>

Source of Reinstatement Figures: Social Security Administration (SSA) data as of March 2002.

Source of ESF Figures: SSA data as of July 2002.

**Notes:**

- (1) This is an estimate based on adding items still in suspense and items already reinstated.
- (2) These figures come from SSA's Reinstates File which does not record every reinstatement. For example, more recent reinstatements may overwrite older data. As a result, recent reinstatement data are more likely to be complete. In addition, some reinstatements are not recorded in this File before being posted. Pre-1978 figures were incomplete and could not be used for comparison purposes.
- (3) SSA is currently running the regular SWEEP and a new process to detect gaps in an earner's record. SSA expects that about 1 million items will be removed from the ESF based on these efforts.

## **Appendix F**

### **SSA Remarks on Prior Earnings Suspense File Recommendations**

<b>Social Security Administration's (SSA) Remarks on Prior Earnings Suspense File (ESF) Recommendations from the Office of the Inspector General (OIG) (Provided on November 4, 2002)</b>	
<b>Prior OIG Recommendation</b>	<b>SSA Remarks</b>
<b><i>Establish Government Performance and Results Act (GPRA) performance goals and measures that track SSA's success in reducing the growth and size of the ESF</i></b>	SSA plans to include such GPRA goals and measurements in its upcoming Fiscal Year (FY) 2004 Annual Performance Plan as well as the Agency's Strategic Plan for 2003-2008. SSA's progress in achieving new goals will be measured by the Office of Quality Assurance and Performance Assessment's records of items removed from suspense and posted to the correct earnings records. The new processes to reexamine the ESF will also identify millions of items that are already on the correct earnings records and therefore will be removed from the ESF.
<b><i>Seek legislative authority to provide SSA the tools to require chronic problem employers to use Employee Verification Services (EVS)</i></b>	<p>SSA believes the Agency can provide the Internal Revenue Service (IRS) with the evidence needed to show that an employer knew or should have known its employees' Social Security numbers (SSN) were incorrect, without seeking legislation. SSA has information available on reported SSNs that the employer should have known were incorrect. SSA is also developing a management information database, which will provide extensive information enabling us to track chronic problem employers.</p> <p>SSA noted it could provide the IRS with lists of employers who chronically report unassigned, duplicate or consecutive SSNs. SSA presently encourages all employers to use EVS, especially employers with reporting problems. Also, SSA is developing an employer history file in its management information database that will enable us to track incorrect reporting of employers over multiple years. Accordingly, SSA believes it will have sufficient evidence to assist IRS in efforts to assess penalties without SSA seeking legislation.</p>

<b>Prior OIG Recommendation</b>	<b>SSA Remarks</b>
<p><b><i>Strengthen efforts with the IRS and Immigration and Naturalization Service (INS) to identify problem employers, given that some large employers have as much as two-thirds of their wage reports going into suspense</i></b></p>	<p>SSA progress is already covered in the information regarding OIG's recommendations to (1) seek legislative authority to provide SSA the tools to require chronic problem employers to use EVS and (2) pursue IRS to assess penalties on chronic problem employers.</p>
<p><b><i>Pursue with the IRS penalties on chronic problem employers and, should the IRS fail to impose such penalties, seek SSA sanctioning authority</i></b></p>	<p>SSA noted that the IRS has agreed to impose penalties for the most egregious noncompliant employers. (The source is a letter from Senator Grassley to the IRS Commissioner, dated September 24, 2002.) SSA believes the IRS, rather than SSA, is the appropriate agency to impose any penalties on the employer—because the information employers are reporting is tax-related data, subject to IRS provisions.</p> <p>Additionally, SSA stated that creating and staffing a component for imposing and collecting penalties will incur an enormous cost to the Agency, with no current estimates of the benefits to be gained. Any such consideration would require further administrative and budgetary study. IRS already possesses the organizational structure for assessing and collecting penalties. Further, SSA's culture and image is that of working with employers to assist them in improving their reporting accuracy. SSA believes this is in the workers' best interest through timely and correct earnings records. On the other hand, the IRS is well-recognized as an enforcement agency that already achieves the desired results in the assessment of penalties for late filing of Forms W-2. SSA believes the greatest benefit would be realized with SSA increasing its efforts to work with the IRS to impose penalties on problem employers.</p> <p>SSA also noted that neither the Internal Revenue Code nor Regulations require that prospective employees show the employer their Social Security cards as a pre-condition for being hired. A change in such policy, if enforced, could have a tremendous impact on reducing ESF growth.</p>

<b>Prior OIG Recommendation</b>	<b>SSA Remarks</b>
<p><b><i>Develop a management information system to identify employers who have their wage reports force processed and identify the number of times their wage reports are force processed</i></b></p>	<p>SSA believes a management information system to track force processing information is no longer necessary. In Tax Year (TY) 2000, SSA changed the name/SSN threshold to allow 95 percent of an employer's electronic wage reports to be in error before SSA rejects the submission. By implementing this policy, SSA virtually eliminated the need for force processing. However, for the last tax year, SSA sent educational correspondence letters to all employers who had any name/SSN mismatches. SSA is establishing an Earnings Data Warehouse that will help evaluate employer reporting trends, including errors, beginning with TY 1998 data. SSA expects the management information provided through the new system will help it more readily identify, track, and work with employers who have a large number of items with name/SSN mismatches that cannot be posted to a wage earner's record.</p>

**Note:** We did not independently verify the information contained in SSA's remarks.

## **Appendix G**

### Prior Office of the Inspector General Reports

<b>Social Security Administration, Office of the Inspector General Reports Related to the Earnings Suspense File</b>		
<i>Common Identification Number</i>	<i>Report Title</i>	<i>Date Issued</i>
A-03-02-22008	<i>The Social Security Administration's Employee Verification Service for Registered Employers</i>	September 2002
A-03-01-11035	<i>Effectiveness of the Social Security Administration's Earnings After Death Process</i>	August 2002
A-03-01-11034	<i>Effectiveness of the Social Security Administration's Decentralized Correspondence Process</i>	July 2002
A-03-01-30035	<i>Management Advisory Report: Recent Efforts to Reduce the Size and Growth of the Social Security Administration's Earnings Suspense File</i>	May 2002
A-03-00-10022	<i>Management Advisory Report: Review of Service Industry Employer with Wage Reporting Problems</i>	September 2001
A-03-99-31001	<i>Force Processing of Magnetic Media Wage Reports with Validation Problems</i>	May 2001
A-08-99-41004	<i>Obstacles to Reducing Social Security Number Misuse in the Agricultural Industry</i>	January 2001
A-03-97-31003	<i>The Social Security Administration's Earnings Suspense Tactical Plan and Efforts to Reduce the File Growth and Size</i>	February 2000
A-03-98-31009	<i>Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items</i>	September 1999

## ***Appendix H***

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# **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

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Ranking Minority Member, Senate Special Committee on Aging	1
President, National Council of Social Security Management Associations, Incorporated	1
Treasurer, National Council of Social Security Management Associations, Incorporated	1
Social Security Advisory Board	1
AFGE General Committee	9
President, Federal Managers Association	1
Regional Public Affairs Officer	1
<b>Total</b>	<b>96</b>

## **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.