
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**THE VALIDITY OF EARNINGS
POSTED TO THE SOCIAL SECURITY
ADMINISTRATION'S MASTER
EARNINGS FILE FOR CHILDREN
AGES 7 THROUGH 13**

SEPTEMBER 2007 A-02-06-26051

AUDIT REPORT



Mission

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SOCIAL SECURITY

MEMORANDUM

Date: September 28, 2007

Refer To:

To: The Commissioner

From: Inspector General

Subject: The Validity of Earnings Posted to the Social Security Administration's Master Earnings File for Children Ages 7 through 13 (A-02-06-26051)

OBJECTIVE

Our objective was to review controls over the validity of earnings posted to the Social Security Administration's (SSA) Master Earnings File (MEF) for children ages 7 through 13.

BACKGROUND

When SSA receives wage reports, it checks the Numident file¹ for the reported Social Security number (SSN) and date of birth (DoB). If the DoB indicates the wage earner is 6 years or younger, the earnings will be identified as a Young Children's Earnings Record (YCER) item and investigated by SSA.² SSA does not have a process to specifically validate and investigate earnings posted to the records of children ages 7 through 13.

While SSA does not have internal wage verification processes for earnings posted to children ages 7 through 13, there are other verification processes that could identify potential wage postings for children in this age group. SSA has two electronic verification programs that employers use to verify the SSNs of employees. A third program is administered by the Department of Homeland Security (DHS) with support from SSA. The verification programs include the following.³

¹ The Numident includes a record of applicant information (such as name, date and place of birth, and parents' names) provided on the applicant's *Application for a SSN* (Form SS-5), in addition to information from applications for replacement SSN cards. Each record is housed in the Numident master file.

² Program Operations Manual System, Records Maintenance 03870.065 *Earnings Posted to Young Children*.

³ In addition to electronic verification programs that require registration, employers can also verify SSNs with SSA by telephone or fax.

- Employer Verification Services (EVS): Employers submit requests to verify the names and SSNs of employees by paper or magnetic media.⁴ Employers have the option of submitting the employee's DoB and gender for verification, but this information is not required to verify the SSN.
- Social Security Number Verification Service (SSNVS): Registered employers verify the names and SSNs of employees against Social Security records on-line or via batch files. Employers have the option of submitting the employee's DoB and gender for verification, but this information is not required to verify the SSN.
- Employment Eligibility Verification System (EEVS): The United States Citizenship and Immigration Services, a component of DHS, administers EEVS with support from SSA. (EEVS was formerly known as the Basic Pilot.) Employers participating in EEVS electronically match the newly hired employee's data (for example, SSN, name, date of birth, and the employee's allegation about U.S. citizenship or alien status) against SSA and DHS records. Employers using EEVS are required to submit the employee's DoB for verification. Participating employers must use the EEVS system to verify employment eligibility within 3 government business days from the new employee's date of hire.

Employers register with SSA to use EVS and SSNVS. For EEVS, employers register with DHS. If the verification process identifies a discrepancy between the employee data being verified and SSA and/or DHS records, employers are notified of this discrepancy, who in turn, notify employees that their data do not match SSA records. The employee is notified that there is a discrepancy, but depending on the specific verification program used, may not be told which information did not match.⁵ The employee is then responsible to contact SSA and correct discrepancies.

The Department of Labor (DoL) provides guidance for allowable earnings for children under age 14. The guidance allows children of any age to work in the entertainment industry, work for their parents, deliver newspapers, and baby-sit or perform minor chores in a private home. In addition, the guidance allows for limited work performed by 12 and 13 year olds. For example, a child age 12 or 13 may be employed in the agricultural industry outside of school hours with written parental consent.⁶

⁴ Starting in October 2007, SSA will no longer process magnetic media (that is, tapes, cartridges, compact disk, or diskettes) for SSN verification using EVS for Registered Users. Employers that prefer to submit requests electronically will be required to use SSNVS.

⁵ If a SSN fails to verify using the EEVS program, the employer will receive one of four possible tentative nonconfirmation responses: SSN does not match with the name provided, SSN is invalid, SSA is unable to confirm U. S. citizenship, or SSA is unable to process data. There is not a specific response to employers stating that the DoB does not match. If the employer provides a DoB for a SSNVS or EVS verification, they will be advised if the DoB does not match SSA records. However, they are not required to provide the DoB.

⁶ 29 C.F.R. §§ 570.2 and 579.3.

To meet our objective, we obtained a data extract for all children ages 7 through 13 with earnings posted to the MEF for Tax Year (TY) 2004. This extract identified 157,963 postings totaling approximately \$696 million. From this dataset, we isolated the 121 employers with 50 or more postings. Of the 121 employers, 79 appeared to legitimately employ children. They consisted of talent agencies, motion picture producers, and agricultural companies that can legitimately employ children per DoL guidance. The remaining 42 employers had 4,229 postings for 3,231 children totaling \$32,650,723⁷ of earnings from industries that did not regularly employ children. From the 4,229 postings, we selected a statistical sample of 250 to determine the validity of the children's earnings. We also compared our results to data on YCER earnings items and employers that sent the most earnings items to the Earnings Suspense File (ESF) in TY 2004. See Appendix B for additional background, scope, and methodology.

RESULTS OF REVIEW

We found SSA lacked the controls needed to ensure the validity of earnings being posted to SSN accounts of children age 7 through 13. Specifically, we found 221 (88 percent) of the 250 earnings postings we reviewed were questionable; meaning the children's earnings postings were most likely due to reasons other than valid employment. The remaining 29 earnings postings were valid. However, 12 of these had corresponding Numident records with an inaccurate DoB, incorrectly showing the SSN belonged to a child age 7 through 13.⁸ We also found that some children with questionable earnings identified through the YCER process also had questionable earnings items on their records after they turned 7 years old. Lastly, we found that over half of the employers we reviewed who reported questionable earnings items for children 7 through 13 were also on the list of employers who sent the most earnings items to the ESF in TY 2004.

VALIDITY OF EARNINGS POSTINGS

We found that 221 (88 percent) of the 250 postings reviewed were potentially due to questionable use of an SSN⁹ rather than valid employment for several reasons, including

- wages over \$5,000 related to jobs not allowable for children 7 through 13 per DoL guidelines,

⁷ We reviewed positive and negative earnings postings. Negative postings were adjustments to offset prior positive postings. The positive postings totaled \$29,946,635. The negative postings totaled \$2,704,088. The absolute value of the postings is \$32,650,723.

⁸ See Appendix C for further details of our earnings postings review.

⁹ We provided the results of our analysis of the sample of 250 earnings postings to SSA staff in the Center for Program Support—a component of the Office of Central Operations. They confirmed our review results as of January 25, 2007.

- earnings posted from multiple employers that did not regularly employ children under 14,
- multiple replacement SSN cards requested, and/or
- the child's guardian contested the reported wages by stating the child had never worked.

We found that many of the earnings items reviewed were questionable for multiple reasons. The following examples illustrate the questionable items we identified.

- One case had TY 2004 earnings of \$15,429 for work in the poultry processing industry. For the SSN, 11 replacement SSN cards had been issued. The most recent replacement card included a change in the child's first and last names. Although SSA records reflected a July 2004 name change, the TY 2004 earnings were reported using the original name.
- A case had TY 2004 earnings of \$16,306 for work in the employment services industry. Although the TY 2004 earnings from the employer had been deleted, there were earnings from the same company posted during TYs 2003 and 2005 that remained on the child's record. Additionally, the child had other TY 2005 wages posted, including postings from a lumber company and an automotive distributor. We determined that 10 replacement SSN cards had been issued for the child's SSN.
- A case had TY 2004 earnings of \$455 for work in the employment services industry. These wages were reported as invalid by the child's guardian. SSA staff corrected the earnings posting in May 2005 and added remarks in SSA's Earnings Modernization System that the father was probably misusing the child's SSN. This claim was supported by the fact that the earnings reported by the employer did not match the child's first name, but did match the father's first name. However, the child continued to have posted earnings in TY 2005.
- A case had TY 2004 earnings of \$22,260 for work in the poultry processing industry. While TY 2004 and 2005 earnings remain on the child's record, wages earned in prior years were reported invalid by the child's guardian. Based on the guardian's report, SSA staff corrected earnings postings for all TYs before 2004. Additionally, the child had been issued an original and replacement SSN card indicating the child is a male. The Supplemental Security Income and Numident records for two subsequent SSN replacement cards indicated the child is a female. We inquired to SSA staff about earnings for 2004 and 2005, which were posted after earlier questionable postings to the SSN had been detected and deleted. Per SSA staff, SSA does not have a policy requiring follow up to check for repeated questionable use of a child's SSN.

We determined 221 of 250 sampled earnings postings with a value of \$2,016,816 were questionable. Projecting the 221 questionable postings to our total population, we estimated approximately 3,738 postings with a value of \$31,715,129 were questionable.¹⁰ See Appendix D for our sampling methodology and projections.

ACCURACY OF SSA RECORDS

Of the 250 postings we reviewed, 29 appeared to be valid. While the postings were valid, the Numident record for the wage earner in 12 cases had the wrong DoB, incorrectly showing the SSN belonging to a child age 7 through 13. In 11 of these cases, we attributed the incorrect DoBs to clerical errors made when inputting a request for a replacement card. Often, the year the input was made for the replacement SSN card was also entered as the DoB. For the remaining posting, it appeared the child's DoB and name were erroneously input into the mother's Numident record. An SSA Alphident query showed the child had a separate SSN. A subsequent review of Numident records showed the DoB had been corrected for 2 of the 12 cases.

VERIFICATION PROGRAM USE

As part of our review, we determined whether the 42 employers associated with the questionable earnings for children age 7 through 13 were registered users of SSN verification programs or DHS's work authorization verification program (EVS, SSNVS or EEVS). We found 32 of the 42 employers were registered users, with some registered to use multiple verification programs. Nineteen employers were registered for EEVS, 20 were registered for EVS, and 18 were registered for SSNVS. We found no registration evidence for the remaining 10 employers.¹¹ We reviewed the verifications for the 32 registered employers during TYs 2004 and 2005 and found 13 did not submit any verification requests during this period.

COMPARISON TO YCER ITEMS

Our October 2006 audit of the *Effectiveness of the Young Children's Earnings Records Reinstatement Process* reviewed YCER earnings items from TY 2002. We compared our data to the data used for the YCER audit. Our comparison found 342 (40 percent) of 853 children with TY 2004 earnings postings from the 42 employers we reviewed also had generated YCER items in TY 2002. The children were born in 1996 and 1997 and were 6 years old or younger during TY 2002 and 7 or older in TY 2004. Despite having YCER items generated when they were 6 years old or younger in TY 2002, the 342 children still had questionable earnings that were not reviewed by SSA in TY 2004. Not only do SSA's systems not generate an alert or control to prevent

¹⁰ The total dollar value of questionable postings is a summation of the absolute values of the postings, since we reviewed both positive and negative postings. The projected total value of questionable postings is an absolute value. See Appendix C for a breakdown of the questionable positive and negative postings reviewed.

¹¹ However, these employers could have used SSA's phone or fax service to verify up to 50 employees at one time without registering for a verification program.

or detect earnings postings for children age 7 and older, there is an apparent inability to ensure earnings for individuals with YCER items are reviewed once the SSN holder is older than 6 years old.

COMPARISON TO TOP 100 ESF EMPLOYERS

We compared the 42 employers in our sample to the 100 employers who sent the most earnings items to the ESF in TY 2004.¹² We found that 24 (57 percent) of the 42 employers in our review appeared on the list of 100 employers. The 24 employers were in the following industries: employment services (14), food services (8), retail (1) and meat and poultry processing industries (1).

CONCLUSION AND RECOMMENDATIONS

We concluded SSA lacked the controls needed to ensure the validity of earnings being posted to SSN accounts of children age 7 through 13. In our October 2006 audit of the *Effectiveness of the Young Children's Earnings Records Reinstatement Process*, we recommended that "Consistent with the Agency's disclosure policies, SSA modify EVS for Registered Users and SSNVS to detect SSNs for children under age 7 to provide appropriate notice to employers and potentially reduce the number of future YCER notices." The Agency accepted the recommendation as it is related to children under age 7.

We believe an expansion of the recommendation to older children may also assist employers identify SSNs for children age 7 through 13 and help to ensure more valid earning reports for children in this age group.

Accordingly, we recommend SSA:

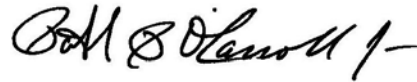
1. Expand the planned modification of SSA's verification programs to detect SSNs for children under age 14 to provide appropriate notice to employers.
2. Work with employers to review and correct any invalid or inaccurate earnings we identified as questionable.
3. Correct the Numident record for the 10 remaining cases we identified as having the wrong DoB.
4. Inform the 10 employers not currently registered for a verification program of the availability of the programs.

¹² We have reported on such issues in the past. See SSA OIG, *Employers with the Most Suspended Wage Items in the 5-Year Period 1997 through 2001 (A-03-03-13048)*, October 2004.

5. Work with DHS and/or DoL, consistent with disclosure laws and regulations, when employers submit earnings reports for children age 7 through 13 that suggest SSNs are being misused by individuals not legally allowed to work in the United States or children under the age of 14 are being employed contrary to DoL guidance.
6. Work with DHS and/or DoL to determine the type of information that would benefit them in meeting their missions and assist them if they need legislation to allow the sharing of this information.

AGENCY COMMENTS

SSA agreed with our recommendations. See Appendix E for the full text of SSA's comments.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – Summary of Employers with 50 or More Earnings Postings for Children
Ages 7 through 13 - by Employer Industry

[APPENDIX D](#) – Sampling Methodology and Results

[APPENDIX E](#) – Agency Comments

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

Acronyms

C.F.R.	Code of Federal Regulations
DHS	Department of Homeland Security
DoB	Date of Birth
DoL	Department of Labor
EEVS	Employment Eligibility Verification System
ESF	Earnings Suspense File
EVS	Employer Verification 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
YCER	Young Children's Earnings Record

Scope and Methodology

To meet our objective, we performed the following steps.

- Researched the Program Operations Manual System to determine Social Security Administration (SSA) policies and procedures for processing wage reports and employer verification programs.
- Researched the Code of Federal Regulations 29 C.F.R. §§ 570.2 and 579.3 for Department of Labor guidance on the employment of minors.
- Obtained and analyzed a data extract from the Master Earnings File of all Tax Year (TY) 2004 earnings postings for children born January 1, 1991 through December 31, 1997. The data contained 157,963 earnings postings with a net value of \$696,034,496. We identified 121 Employer Identification Numbers (EIN) that appeared in the data extract 50 or more times. We determined that 42 of the companies did not regularly employ children. We selected a random sample of postings from the 42 EINs for review. We obtained and analyzed data on employer participation in verification programs for the 42 employers.
- Reviewed the October 2006 report on the *Effectiveness of the Young Children's Earnings Records Reinstatement Process* (A-03-05-25009). Specifically, we obtained 40,461 TY 2002 Young Children's Earnings Record (YCER) earnings items used in this report. We compared a list of the 42 EINs mentioned above to the EINs associated with TY 2002 YCER earnings items. The 42 EINs appeared 1,851 times in the list of TY 2002 YCER earnings items. We also compared the Social Security numbers (SSN) associated with TY 2002 YCER earnings items to the SSNs that occurred in the population of 4,229 postings for the 42 EINs. We determined that 342 of 853 (40 percent) 7 and 8 year olds who had a TY 2004 earnings posting from 1 of the 42 employers also had a TY 2002 YCER item.
- Reviewed the October 2004 report, *Employers with the Most Suspended Wage Items in the 5-Year Period 1997 through 2001* (A-03-03-13048). Specifically, we obtained a list of 100 EINs with the most suspended wage items for TY 2004. We compared the list of 100 EINs to the list of 42 EINs with 50 or more postings for children age 7 through 13. We determined that 24 EINs appeared on both lists.

We provided the results of our analysis of the sample of 250 earnings postings to SSA staff in the Center for Program Support—a component of the Office of Central Operations—who confirmed the results of our review as of January 25, 2007.

We performed our audit fieldwork in the New York Audit Division from December 2006 through May 2007. We found the data used for this audit were sufficiently reliable to meet our objective. The entity audited was SSA's Office of Central Operations, under the Deputy Commissioner for Operations. Our audit was performed in accordance with generally accepted government auditing standards.

Summary of Employers with 50 or More Earnings Postings for Children Ages 7 through 13 - by Employer Industry

Employer Industry		Sample Postings Review		Dollar Amount of Invalid Postings	
Type	No.	Valid	Invalid	Positive	Negative
Employment Services	19	18	109	\$488,413.91	(\$156,590.64)
Meat/Poultry Processing	9	0	68	\$1,017,430.06	(\$60,141.53)
Food Service	8	3	31	\$187,401.26	\$0.00
Retail Stores	4	7	7	\$68,930.51	(\$60.79)
Healthcare and Social Assistance	1	1	4	\$36,866.61	\$0.00
Painting Contractor	1	0	2	\$0.00	(\$981.00)
Totals	42	29	221	\$1,799,042.35	(\$217,773.96)

Sampling Methodology and Results

We obtained and analyzed a data extract of the Master Earnings File of all Tax Year 2004 earnings postings for children born January 1, 1991 through December 31, 1997. The data contained 157,963 earnings postings with a net value of \$696,034,496. We identified Employer Identification Numbers (EIN) that appeared in the data extract 50 or more times. We found 121 EINs met this criterion. We used employer names, yellow pages, company web sites, and other web sites to identify the type of business the company engaged in. We determined that 42 of the companies were in industries that did not regularly employ children according to Department of Labor guidelines.

The 42 EINs had a total of 4,229 earnings postings for children age 7 through 13. The population of 4,229 postings consisted of:

- 3,767 positive postings totaling \$29,946,635;
- 372 negative postings totaling \$2,704,088; and
- 90 postings for \$0.00.

Negative postings are adjustments to offset prior positive postings. These adjustments are sometimes accompanied by a \$0.00 posting, reflecting the true total wages from the employer.

From the 4,229 postings, we selected a sample for review of 250 postings with a total absolute value of \$2,076,312.¹ We obtained Social Security Administration Master Beneficiary Record, Supplemental Security Income Record, Numident, Summary Earnings, Detail Earnings and Earnings Modernization queries for each of the Social Security numbers in the sample. We reviewed the queries to determine whether the Social Security Administration had an incorrect date of birth recorded in the Numident, Social Security number misuse had ever been reported, and/or the earnings appeared to belong to someone other than the person the SSN was originally issued to. We projected the absolute dollar value of questionable postings using a statistical ratio estimation approach. The results of our review are shown in the following chart.

¹ We reviewed both positive and negative postings; the total value reviewed is a summation of the absolute values of each of the postings.

Projections for the 42 EINs	
Sample Population- Number of postings	4,229
Sample Population- Total absolute value of postings for children age 7 through 13 for the 42 EINs	\$32,650,723
Sample size	250
Sample Results and Projections - Questionable Postings	
Attribute Projection	
Sample cases- Questionable postings	221
Projection- Questionable postings	3,738
Projection lower limit	3,579
Projection upper limit	3,870
Variable Projection	
Absolute value of questionable postings	\$2,016,816
Projection- Absolute value of questionable postings	\$31,715,129
Projection lower limit	\$31,157,973
Projection upper limit	\$32,272,285

Note: Projections made at the 90-percent confidence level.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

September 21, 2007

Date:

Refer To: S1J-3

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

From: Larry W. Dye /s/

Subject: Office of the Inspector General (OIG) Draft Report, "The Validity of Earnings Posted to the Social Security Administration's Master Earnings File for Children Age 7 through 13" (A-02-06-26051)--INFORMATION

This is in response to your September 6, 2007 memorandum requesting that we reconsider recommendation 6 of the subject report. Based on the revisions you have made to this recommendation, we can now agree. The attached response reiterates our previous agreement with recommendations 1 through 5 and revises 6 to agree.

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

Attachment

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL’S (OIG) DRAFT REPORT, “THE VALIDITY OF EARNINGS POSTED TO THE SOCIAL SECURITY ADMINISTRATION’S MASTER EARNINGS FILE FOR CHILDREN AGE 7 THROUGH 13” (A-02-06-26051)

Thank you for the opportunity to review and provide comments on this draft report. We are constantly evaluating ways to ensure the accuracy of earnings records, as one of our stewardship goals is to ensure the accuracy of earnings records so that eligible individuals can receive the proper credit for their earnings when it comes time to file for benefits.

Our comments on the draft recommendations are as follows.

Recommendation 1

Expand the planned modification of SSA’s verification programs to detect Social Security numbers (SSN) for children under age 14 to provide appropriate notice to employers.

Comment

We agree. We will analyze, once resources are available, the feasibility of modifying our employer verification process to detect SSNs for children under the age of 14. Our current disclosure policy would allow for the date of birth information to be shared with employers. This is because the routine use established for the applicable Privacy Act system of records, the SSN Master file (i.e., the Numident records), allows information from that system to be disclosed to employers consistent with their wage reporting responsibilities.

Recommendation 2

Work with employers to review and correct any invalid or inaccurate earnings that were identified as questionable.

Comment

We agree. We have initiated plans to review the entire earnings process to address the current deficiencies and weaknesses. We share OIG’s concern, however, an enhancement plan will involve the efforts of several different components and the investment of considerable time and resources. An implementation date will be determined once we have identified the steps necessary.

Recommendation 3

Correct the numident record for the 10 remaining cases identified as having the wrong date of birth.

Comment

We agree. We will handle the necessary corrections upon receipt of information regarding the 10 specific cases OIG is referencing. We expect to perform the necessary correction to the Numident records within 2 weeks of receipt.

Recommendation 4

Inform the 10 employers not currently registered for a verification program of the availability of the programs.

Comment

We agree. We have contacted the 10 specific employers and encouraged their participation in one of our employer verification programs. Five of the employers are currently using the Social Security Number Verification Service, while the remaining five are planning to register and use the service in the future.

Recommendation 5

Work with the Department of Homeland Security (DHS) and/or the Department of Labor (DOL), consistent with disclosure laws and regulations, when employers submit earnings reports for children age 7 through 13 that suggest SSNs are being misused by individuals not legally allowed to work in the United States or children under the age of 14 are being employed contrary to DOL guidance.

Comment

We agree in theory. However, we currently have no way to electronically identify employers who do not normally employ workers under age 14, and we cannot electronically identify children working contrary to DOL guidance since our only source of information on specific individuals are tax return documents. There does not appear to be any additional data that could be shared consistent with disclosure laws and regulations. Assuming the Master Earnings File is the potential source of the data to be disclosed, the current provisions of the Internal Revenue Code (IRC) prohibit SSA from making those disclosures to DHS and DOL. This is because SSA cannot disclose additional data from the earnings record unless there is an expressed authorization within section 6103 of the IRC (26 U.S.C. § 6103) to do so.

Recommendation 6

Work with DHS and/or DOL to determine the type of information that would benefit them in meeting their missions and assist them if they need legislation to allow the sharing of this information.

Comment

We agree. We will work with DHS and/or DOL to determine what, if any, information they would need; however, because the issues identified for purposes of this recommendation are under the jurisdiction of those respective agencies, we would defer to those agencies to seek the necessary legislation to obtain such information.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Tim Nee, Director, New York Audit Division, (212) 264-5295

Victoria Abril, Audit Manager, (212) 264-0504

Acknowledgments

In addition to those named above:

Christine Hauss, Program Analyst

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