



SOCIAL SECURITY

MEMORANDUM

Date: March 18, 2003

Refer To:

To: The Commissioner

From: Inspector General

Subject: The Social Security Administration's Processing of Internal Revenue Service Overstated Wage Referrals (A-03-02-22068)

Attached is a copy of our final report. Our objective was to evaluate the Social Security Administration's processing of Internal Revenue Service overstated wage referrals.

Please comment within 60 days from the date of this memorandum on corrective action taken or planned on each recommendation. If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

A handwritten signature in blue ink, appearing to read "James G. Huse, Jr.", written in a cursive style.

James G. Huse, Jr.

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**THE SOCIAL SECURITY
ADMINISTRATION'S PROCESSING OF
INTERNAL REVENUE SERVICE
OVERSTATED WAGE REFERRALS**

March 2003

A-03-02-22068

AUDIT REPORT



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.

Authority

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

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

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

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

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.

Executive Summary

OBJECTIVE

Our objective was to evaluate the Social Security Administration's (SSA) processing of Internal Revenue Service (IRS) overstated wage referrals.

BACKGROUND

Each year, a number of taxpayers contact the IRS to dispute wages posted to their earnings record as well as the associated taxes. If the IRS concurs with the taxpayer, the IRS sends a referral to SSA stating the earnings reported under a specific Social Security number (SSN) do not belong to the person holding that SSN. The IRS does not collect Federal income tax from the individual on the disputed earnings and notifies SSA to correct the individual's earnings record. SSA and the IRS have previously agreed on the information that is needed to process these referrals. The IRS has sent referrals to SSA for over 10 years, and SSA has an estimated backlog of 80,000 unprocessed referrals.

RESULTS OF REVIEW

As of March 2002, the IRS had sent SSA 11,986 referrals related to Tax Year (TY) 1999 disputed wages. SSA has not processed these referrals to determine whether the individuals have overstated wages on the Master Earnings File (MEF), SSA's database of earnings information reported by employers and self-employed individuals.

Our review of 100 randomly selected referrals found that individuals with disputed wages had an average age of 36, and the average disputed wages were \$8,780. Based on our sample data, the TY 1999 referrals represent about \$105 million in disputed wages, and SSA's backlog represents an estimated \$702 million in disputed wages.

We found that the overstated wage postings in our sample could lead to improper payments or could be an indicator of identity theft. Of the 100 referrals sampled,

- 24 had already been corrected by the time we reviewed the MEF (the individuals disputing the wages contacted SSA);
- 65 related to wages that were still posted to the accounts of the individuals who disputed the wages with the IRS; and
- 11 had bad name/SSN combinations or the earnings in question were not on SSA's MEF.

Our review of the 24 referrals already corrected by SSA revealed numerous cases of identity theft. In addition, after reviewing the 65 unprocessed referrals, we agreed with the IRS' conclusion that the wages do not belong to the owners of the SSNs. We

estimate approximately 7,800 of the TY 1999 IRS referrals may relate to overstated wages not identified by SSA, causing the MEF to be overstated in TY 1999 by as much as \$66 million. If we estimate total overstated wages related to the 80,000 unprocessed referrals, this overstatement in the MEF could total \$438 million. These overstated wages, if left uncorrected, could lead to improper payments to future retired beneficiaries, totaling an estimated \$41 million over the beneficiaries' lifetimes.

CONCLUSIONS AND RECOMMENDATIONS

Coordinating SSA and IRS actions would improve the overall effectiveness of the disputed wage referral process. We found that the IRS is providing SSA with all of the information specified in its written agreements with SSA. However, SSA should renegotiate its procedures with the IRS if the Agency cannot process the referrals in their current format. By not processing the IRS disputed wage referrals, SSA has missed an opportunity to improve the integrity of earners' records, reduce potential overpayments, and identify SSN misuse within the economy. Therefore, we recommend that SSA:

- Begin processing the IRS referrals, starting with the referrals that are most likely to (a) reduce overpayments, such as those related to individuals closer to retirement age, and (b) minimize identity theft, such as those with higher disputed wages over multiple TYs.
- Work with the IRS to establish and implement procedures to process the referrals, which could include (a) the IRS obtaining sufficient information from the numberholder to allow SSA to remove the wages without additional development; (b) SSA requesting that future referrals be provided electronically to minimize handling at SSA; (c) the IRS requesting that the numberholder contact SSA to correct the wages; or (d) the IRS requesting that the employer send a corrected wage report to SSA.

AGENCY COMMENTS

SSA generally agreed with both of our recommendations. See Appendix C for SSA's comments.

Table of Contents

	Page
INTRODUCTION	1
RESULTS OF REVIEW	3
Status of Internal Revenue Service Referrals	3
Indications of Improper Benefit Payments and Identity Theft.....	5
Prioritizing the Referral Workload.....	7
Coordination with the Internal Revenue Service	8
CONCLUSIONS AND RECOMMENDATIONS	10
 APPENDICES	
APPENDIX A – Sampling Methodology and Results	
APPENDIX B – Estimating Improper Benefit Payments Methodology and Results	
APPENDIX C – Agency Comments	
APPENDIX D – OIG Contacts and Staff Acknowledgments	

Acronyms

CY	Calendar Year
ESF	Earnings Suspense File
IRS	Internal Revenue Service
MEF	Master Earnings File
OCO	Office of Central Operations
OIG	Office of the Inspector General
SSA	Social Security Administration
SSN	Social Security Number
TY	Tax Year
W-2	Wage and Tax Statement

Introduction

OBJECTIVE

Our objective was to evaluate the Social Security Administration's (SSA) processing of Internal Revenue Service (IRS) overstated wage referrals.

BACKGROUND

Title II of the Social Security Act requires that SSA maintain an individual's reported earnings records.¹ SSA uses these reported earnings to determine insured status for entitlement to retirement, survivors, disability and health insurance benefits and to calculate cash benefit amounts. The earnings records show the amount of earnings reported by the worker's employer or the self-employed person and the periods for which they were reported.

Each year, a number of taxpayers contact the IRS to dispute wages posted to their earnings record as well as the associated taxes. If the IRS concurs with the taxpayer, it sends a referral to SSA stating the earnings reported under a specific Social Security number (SSN) do not belong to the person holding that SSN. In these cases, the IRS does not collect Federal income tax from the individual on the disputed earnings and notifies SSA to correct the individual's earnings record. SSA and the IRS have previously agreed on the information needed to process the referrals. The IRS has sent referrals to SSA for more than 10 years, and SSA is showing an estimated backlog of at least 80,000 referrals.

The IRS referral sent to SSA, called the *IRS/SSA Wage Worksheet* (Form 9409), contains information on the individual disputing the wages as well as a description of steps the IRS has taken to resolve the issue. The referral includes such information as the (1) name, address and SSN of the individual disputing the wages; (2) Employer Identification Number; and (3) wages in dispute for a specific TY. The referral also notes how the IRS resolved the issue, such as (1) "taxpayer and employer state the taxpayer did not work for that employer," (2) "taxpayer states he/she did not work for the above employer," or (3) the employer provided a corrected name and SSN.

¹ "On the basis of information obtained by or submitted to the Commissioner of Social Security, and after such verification thereof as the Commissioner deems necessary, the Commissioner of Social Security shall establish and maintain records of the amounts of wages paid to, and the amounts of self-employment income derived by, each individual and of the periods in which such wages were paid and such income was derived and, upon request, shall inform any individual or his survivor, or the legal representative of such individual or his estate, of the amounts of wages and self-employment income of such individual and the periods during which such wages were paid and such income was derived, as shown by such records at the time of such request." 42 U.S.C. § 405(c)(2)(A).

SCOPE AND METHODOLOGY

To meet our objective, we:

- Reviewed SSA's policies and procedures for maintaining and changing individual earnings records.
- Reviewed existing SSA guidelines for processing IRS referrals.
- Discussed procedures related to IRS referrals with IRS employees.
- Met with SSA employees responsible for processing IRS referrals.
- Obtained copies of all TY 1999 IRS referrals in SSA's possession, selected a random sample of 100 items, and projected the associated disputed wages to the entire TY 1999 population. See Appendix A for details of our sampling methodology.
- Analyzed each TY 1999 IRS referral in our sample using information from the following SSA files: Master Earnings file (MEF); Earnings Suspense file (ESF);² and the Numident file.³ We also reviewed SSA's *Wage and Tax Statement (W-2)* information. Using this information, we determined whether we concurred with the IRS conclusion that the disputed wages did not belong to the numberholder in question. We also determined whether SSA had taken any action on the disputed wages separate from the referral process.
- Estimated the improper benefit payments that SSA would make in the future if the IRS referrals in the backlog still in need of SSA processing were never resolved and the disputed wages remained on the individuals' earnings records. See Appendix B for details on our improper benefit payment estimate.

Our audit did not include a test of (1) the completeness of the number of IRS referrals maintained by SSA and (2) IRS internal controls related to the referrals sent to SSA. The SSA entity responsible for processing the IRS referrals is the Office of Central Operations (OCO) under the Deputy Commissioner of Operations. We performed our audit at OCO in Baltimore, Maryland, and the Office of Audit in Philadelphia, Pennsylvania, between December 2001 and September 2002. We conducted our review in accordance with generally accepted government auditing standards.

² The ESF is an electronic file housing reported earnings that cannot be associated with an individual's name and/or SSN.

³ The Numident file houses records of original and replacement SSN cards issued over an individual's lifetime, as well as identifying information such as date of birth, place of birth, and parent's names.

Results of Review

SSA has not processed approximately 80,000 IRS referrals in its possession related to individuals who disputed the wages posted to their earnings accounts. By not reviewing these IRS referrals, SSA is missing an opportunity to correct individual earnings records, prevent the misuse of SSNs, and reduce improper benefit payments. Although SSA already corrected 24 percent of the referrals through other means, such as the numberholder contacting SSA, our review found that about 65 percent of the IRS referrals still needed to be reviewed by SSA to prevent improper benefit payments and/or identity theft. We could not make a determination on the remaining 11 percent of the referrals since the IRS provided incorrect information or the disputed wages were not posted to the individual's earnings record.

STATUS OF INTERNAL REVENUE SERVICE REFERRALS

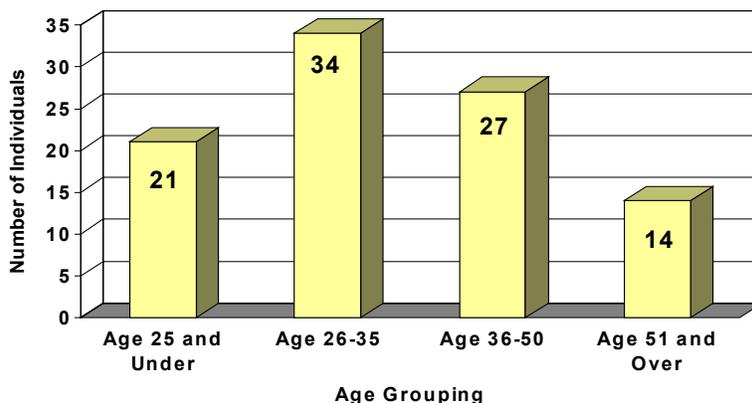
Our review of available information at SSA's OCO indicates that, as of March 2002, the IRS had sent SSA 11,986 referrals related to disputed TY 1999 wages. However, SSA has not processed any of these referrals to determine whether the individuals had overstated wages on the MEF. SSA staff stated that OCO employees have encountered difficulties attempting to reconcile earnings discrepancies using the information on the IRS referral. The specific obstacles cited were the (1) receipt of incomplete forms; (2) lack of supporting documentation; and (3) inability to further develop the record with the IRS processing center that sent the form. In addition, although SSA and IRS officials exchanged a series of memorandums from 1985 to 1992 regarding the IRS referral process in general, SSA staff stated the Agency does not have any formal policy or procedures in place to process the forms.

Characteristics of Internal Revenue Service Referrals

In our review of 100 randomly selected IRS referrals in TY 1999, we found the following characteristics among the individuals in our sample.

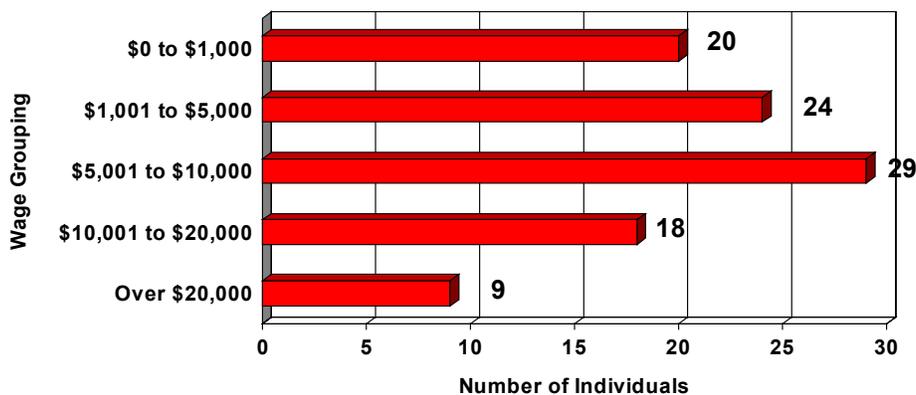
- The average age was 36, with the youngest being 18 years old, and the oldest being 74 years old (see Figure 1 for a distribution of ages).
- Individuals had an average disputed wage of \$8,780, ranging from \$15 to \$72,600.
- Disputed wages represented, on average, about 33 percent of each individual's TY 1999 total earnings (see Figure 2 for a distribution of disputed wages in our sample).
- Individuals born outside the United States comprised 43 percent of our sample.

Figure 1: Age Distribution of Individuals in TY 1999 Sample



Note: We could not determine the age of 4 individuals since their information could not be confirmed—the SSNs furnished by the IRS did not match SSA's records.

Figure 2: Disputed Wage Distribution for Individuals in TY 1999 Sample



Projecting our 100 sample referrals to the population of TY 1999 referrals, we estimate the IRS referred to SSA approximately \$105 million in disputed wages for TY 1999 (see Appendix A). SSA staff estimated that approximately 80,000 referrals were pending action—including the TY 1999 items in our audit. If we assume the characteristics in this backlog are similar to that of our sample, this backlog of referrals could represent as much as \$702 million in disputed wages.

INDICATIONS OF IMPROPER BENEFIT PAYMENTS AND IDENTITY THEFT

In our review of 100 sample cases, we found credible evidence that the disputed wages did not belong to the individuals. As a result, the overstated wage postings in our sample could relate to SSN misuse and lead to improper benefit payments. Of the 100 IRS referrals in our sample, we found the following:

- 24 referrals had already been corrected when we reviewed the MEF⁴—in most cases, the individuals had contacted SSA, and the Agency agreed the wages did not belong to the individuals;
- 65 referrals related to questionable wages that were still posted to the accounts of the individuals who disputed them with the IRS; and
- 11 referrals contained insufficient or erroneous information, such as a bad name/SSN combination or the earnings in question were not on SSA's MEF.

In conducting our review of the referrals, we used SSA's records and files to determine whether the disputed wages belonged to the individuals. For example, we (1) analyzed the individual's earnings history on the MEF to understand their wage patterns and industry of employment; (2) compared the address on the referral to addresses on W-2s for the same TY and/or same employer in different TYs; and (3) reviewed SSA's activities related to the individual that may have indicated other problems with posted wages.

Potential Social Security Number Misuse

In the 24 cases already corrected by SSA, we found 16 cases (67 percent) with clear indications of SSN misuse.⁵ In these cases, the individuals contacted SSA to correct their earnings records. We could not determine what initiated their contact with SSA for most of the cases, but prior contact with the IRS was cited as the reason in at least three of these cases. Many of these earnings discrepancy cases involved more than 1 year and/or more than one employer.

- In 16 of the 16 cases (100 percent), SSA removed more than 1 year of earnings.
- In 15 of the 16 cases (94 percent), disputed earnings had been posted by more than 1 employer.

In total, SSA removed 58 years of earnings related to 128 employers in these 16 cases, an average of about 4 years and 8 employers per individual. For example, in one case, SSA removed \$115,823 from an individual's earnings record. Eight employers in Georgia, Tennessee, and Texas reported earnings under the same SSN from 1998 to 2001. Four employers reported earnings for multiple years, while the other four

⁴ In most cases, the earnings were placed in the ESF for later resolution.

⁵ The eight remaining cases related to employer wage reporting errors, such as the employer reporting multiple W-2s, or reporting reimbursements as wages.

employers reported earnings for 1 year. The individual notified SSA that someone was using his SSN, and SSA contacted the eight questionable employers. Of the five employers that responded, three indicated they no longer employed the individual, while two stated someone was still working there using the individual's SSN (two different people). SSA requested the latter two employers ask the individual using the disputed SSN to contact the local SSA field office. We contacted the field office where the correction was made, but we were unable to determine how the potential identity theft was resolved.

In another example, SSA removed \$96,456 in earnings from an individual's record. Wages were reported as earned under the same SSN from seven employers in Wisconsin and Texas over a 4-year period. Five employers reported earnings under this individual's SSN for multiple years, and two employers reported earnings using this SSN for 1 year. The individual contacted SSA and reported losing his SSN card. SSA contacted the employers, who provided photo identification cards for the employees using this SSN. From the photographs, SSA concluded that two different individuals were working under the assumed name of the SSN holder. One of the individuals provided the employer a Wisconsin State photo identification card, and the other gave his employer a Milwaukee County identification card—both apparently bearing the false name.

Potential Improper Payments

In those 65 referrals where we agreed with the IRS' conclusion that the wages do not belong to the individuals in question, SSA is increasing the risk of improper benefit payments by not processing the referrals and removing the disputed wages. We estimate that approximately 65 percent of the 11,986 referrals in TY 1999, or 7,791 disputed wage items, may relate to overstated wages not identified by SSA. We further estimate that these 7,791 wage items, if left uncorrected, could cause the MEF to be overstated in TY 1999 by as much as \$66 million. If we estimate overstated wages related to the 80,000 unprocessed referrals, this overstatement in the MEF could be as large as \$438 million.⁶

These overstated wages, if left uncorrected, could lead to improper benefit payments to future retired beneficiaries totaling an estimated \$41.4 million over the beneficiaries' lifetimes (see Appendix B for our methodology and calculations). Our improper payment estimate is based on a number of assumptions taken from our sample, such as the individual's age, disputed wage amount, and disputed wages as a percentage of total wages for the unprocessed referrals. We also assumed each individual would retire at age 65 and collect benefits for 15 years.

⁶ This \$438 million estimate is calculated using our sample results and applying those results to SSA's backlog, assuming our sample results are representative of the entire backlog. Our estimate assumes 65 percent of the 80,000 backlog referrals are in need of processing by SSA, and this product was multiplied by the average disputed wage of the unprocessed referrals (\$8,438).

We reviewed one sample case to determine the specific impact of overstated wages in terms of both retirement and disability benefits. This individual, born in 1953, had a total of \$110,723 in disputed wages removed from his earnings record.⁷ Eight employers reported these wages over a 4-year period—TYs 1998 through 2001. If this individual retires at age 62, these disputed wages will increase his retirement benefit by \$87 per month. If the man had become disabled in 2001 and began receiving disability benefits based on the erroneous earnings, these benefits would be overstated by \$139 per month, or \$1,668 annually.

The disputed wages in our sample may indicate similar problems in other TYs for the same individual, magnifying the impact of overstated wages in the MEF. We could not determine the full extent of problem wages per individual since SSA did not electronically track data for all 80,000 referrals in its possession. If such information were available, we could assess trends in the data, such as total disputed wages per SSN or total disputed wages per employer.

PRIORITIZING THE REFERRAL WORKLOAD

Based on the results of our sample, 65 percent of the unprocessed referrals would need some form of action. SSA could reduce its overall referral workload by eliminating from review those cases that either (1) have already been resolved (that is, the 24 cases noted above) or (2) contain incorrect information which limit SSA's ability to resolve the issue (incorrect name/SSN combinations or unposted amounts). SSA could further reduce this referral workload by prioritizing the processing of the remaining IRS referrals. For example, SSA could prioritize working those referrals where (1) the numberholder is close to retirement; (2) the disputed wages are a high percentage of total earnings; and/or (3) the disputed amounts cover multiple years. This would target those cases most likely to produce improper benefit payments.⁸

In our sample, we found the following characteristics among the 65 referrals that were never processed by SSA:

- 18 individuals were age 40 or older, and presumably closer to collecting retirement or disability benefits than younger individuals;
- 9 individuals had disputed wages representing 50 percent or more of their total earnings in TY 1999; and
- 42 individuals had disputed earnings in more than 1 year for the employer on the IRS referral.⁹

⁷ SSA corrected these disputed wages when the individual contacted SSA. We use this for illustrative purposes since our review focused on TY 1999 information only, while this corrected record indicates that the problem can relate to multiple TYs.

⁸ SSA would need to process all 65 cases if the purpose is to reduce the risk of ongoing identity theft.

⁹ We are assuming that if the individual is disputing the TY 1999 earnings from a particular employer, that other earnings reports from that same employer may also be incorrect.

Although SSA could use any of these conditions to further refine the workload, we found that 3 individuals met all 3 of the conditions noted above, and an additional 15 individuals met 2 of the conditions.

Furthermore, SSA could benefit from having all pending referrals available in a database before any actions by staff. Information within this referral database could be compared to information on the MEF, eliminating those items that have already been corrected as well as those items that have insufficient information for SSA action. Based on the results of our sample, such a match would have eliminated 35 percent of the TY 1999 referrals. SSA could then categorize the remaining 65 percent in a manner similar to our proposed classification (age of individual, ratio of disputed earnings to total earnings, number of years with disputed earnings) or decide on other appropriate categories. Based on the results of such sorting (and other factors, such as the availability of resources) SSA could decide which referrals should be processed first.

COORDINATION WITH THE INTERNAL REVENUE SERVICE

Based on prior correspondence between SSA and the IRS regarding the referrals, the IRS referrals appear to provide the information agreed to by the two agencies. However, SSA has failed to follow through on its commitments to the overall process.

In an August 26, 1991 memorandum to the IRS, SSA's Associate Commissioner for Retirement and Survivors Insurance specifically requested minimum information from the IRS for SSA to take corrective action, including

- the taxpayer's name on the W-2;
- the taxpayer's SSN on the W-2;
- the Employer Identification Number;
- the TY;
- the wage amount; and
- the taxpayer's current address.

SSA also noted that the taxpayer's address is needed "...so that we may contact him to obtain an affidavit (or other confirming evidence) as to his or her earnings, any information he or she might have about the identity of the person using the taxpayer's Social Security number, and to permit us to notify him or her about the adjustment of earnings after it was approved...."

Our review of the information on the IRS Form 9409 indicates that the IRS is providing SSA all the agreed upon data. Nonetheless, SSA has not processed any of these referrals as it proposed to do in the above referenced memorandum. When we discussed this issue with SSA staff, they noted the Agency needs the IRS to provide more information from either the employer or employee, such as a corrected W-2 (W-2C) or a signed statement from the individual disclaiming the wages. However,

in devising this referral process, SSA had not requested such information from the IRS but instead acknowledged that SSA staff would have to obtain an affidavit.

SSA should renegotiate the referral procedures with the IRS if it is unable to process the referrals in their current format. For instance, SSA could request that the IRS obtain additional information from the numberholder to allow SSA to remove the wages without additional development. At a minimum, the IRS could be asked to request that the (1) SSN holder contact SSA to correct the wages or (2) employer send a corrected wage report to SSA. Absent these modifications, SSA would need to directly contact the numberholder and obtain sufficient support for the wage removal, as SSA originally proposed in discussions with the IRS.

In addition, SSA could improve the overall efficiency of the referral process if future referrals were provided electronically. Electronic files could minimize handling and allow SSA to (1) determine trends in a more timely fashion and (2) compare the referral information to the MEF. These electronic referrals could be immediately entered into an SSA database and then used to (1) screen and prioritize the referral information; (2) determine trends such as multiple years of earnings being disputed; and (3) compare the referral information to the MEF to determine which disputed wages were already corrected. For example, SSA could have IRS referrals for the same individual and employer for a number of years, but, currently, the Agency would be unaware of this because of the absence of internal referral processing data.

Conclusions and Recommendations

SSA has missed an opportunity to improve the integrity of earner's records, reduce potential overpayments, and identify SSN misuse within the economy. We believe SSA can reduce the overall workload related to unprocessed referrals by creating a database to highlight trends and prioritize cases based on the likelihood of improper benefit payments and/or identity theft. SSA should renegotiate its referral procedures with the IRS if the current process is not providing the Agency the necessary information in the right format to resolve the underlying issues.

To improve the integrity of the MEF, prevent potential overpayments, and detect instances of identity theft, we recommend that SSA:

1. Begin processing the backlogged IRS referrals, starting with the referrals that are most likely to (a) reduce overpayments, such as those related to individuals closer to retirement age, and (b) minimize identity theft, such as those with higher disputed wages over multiple TYs.
2. Work with the IRS to establish and implement procedures to process the referrals, which could include (a) the IRS obtaining sufficient information from the numberholder to allow SSA to remove the wages without additional development; (b) SSA requesting that future referrals be provided electronically to minimize handling at SSA; (c) the IRS requesting that the numberholder contact SSA to correct the wages; or (d) the IRS requesting that the employer send a corrected wage report to SSA.

AGENCY COMMENTS

SSA generally agreed with both of our recommendations. Specifically, SSA agreed to (1) develop a workplan to begin processing the workload while considering budget and resource constraints and (2) form a workgroup with IRS to revisit the overall process to implement processing improvements and/or automate this workload. (See Appendix C for SSA's comments.)

Appendices

Sampling Methodology and Results

To complete our objective, we reviewed the Social Security Administration's (SSA) paper files of Internal Revenue Service Form 9409 referrals related to multiple tax years (TY). Based on our review, we identified 11,986 referrals related to TY 1999. From these 11,986 referrals, we selected a random sample of 100 cases for detailed review.

Sample Results and Projection	
Population size	11,986
Sample size	100
TY 1999 Population - Dollar Projection	
Disputed wages for 100 sample items	\$877,999
Projection of disputed wages for TY 1999 referrals	\$105,236,960
Projection lower limit	\$83,230,311
Projection upper limit	\$127,243,609
Unprocessed TY 1999 Referrals	
Attribute Projection	
Sample referrals that need processing by SSA	65
Projection of TY 1999 referrals that need processing by SSA	7,791
Projection lower limit	6,763
Projection upper limit	8,738
Dollar Projection	
Sample disputed wages for 65 referrals that need processing by SSA	\$547,965
Projection of disputed wages for TY 1999 referrals that need processing by SSA	\$65,679,928
Projection lower limit	\$50,957,622
Projection upper limit	\$80,402,234

Note: Results are reported at the 90-percent confidence level.

Estimating Improper Benefit Payments Methodology and Results

We estimated the improper benefit payments related to the referrals still in need of Social Security Administration (SSA) processing. Our improper benefit payment estimate is based on a number of assumptions taken from our sample, such as the individual's age, disputed wage amount, and disputed wages as a percentage of total wages for the unprocessed referrals. We also assumed each individual would retire at age 65 and collect benefits for 15 years and assumed the individual would be earning the average annual wage as determined by SSA in its Statistical Supplement for 2001. Additional assumptions can be found below.

The actual improper benefit payments could vary because of a number of factors. For example, our calculation would overestimate the improper benefit payments if some of the individuals collected retirement benefits on other individuals' earnings histories, such as a spouse's record. However, the calculation would underestimate the improper payments if some of the individuals became disabled before age 65.

Calculation	Resulting Amount
Calendar Year (CY) 2000 Old-Age, Survivors and Disability Insurance (OASDI) retirement benefit due to an individual should the disputed wage not be removed by SSA	\$965.60
CY 2000 OASDI retirement benefit due to an individual should the disputed wage be removed by SSA	\$959.70
Potential monthly overpayment per individual related to the CY 2000 OASDI retirement benefit	\$5.90
Potential annual overpayment per individual related to the CY 2000 OASDI retirement benefit	\$70.80
Potential lifetime overpayment per individual related to the CY 2000 OASDI retirement benefit (total of 15 years)	\$1062.00
Potential annual overpayments related to the Tax Year (TY) 1999 population of 7,791 referrals that need processing by SSA	\$8,274,042
Potential lifetime overpayments related to 38,955 referrals (5 years worth in SSA's backlog) that need processing by SSA	\$41,370,210

Additional Calculation Assumptions

- (1) To determine the CY 2000 OASDI retirement benefit due an individual should the disputed wage not be removed by SSA, we assumed the characteristics of our sample were consistent for the entire TY 1999 population, including
 - the average age of an individual when the disputed wages were posted was 35; and
 - the percent of total wages in dispute was 25 percent of total wages earned.
- (2) Each individual in the population will have at least 35 years of wages posted to their earnings record before retiring at age 65. In addition, those recorded wages will occur in the 35 years before their retirement and be equal to the Average Annual Wage as reported by SSA in Table 2.8A of its *Social Security Bulletin, 2001 Annual Statistical Supplement*. We used CY 2000 as a baseline since the earnings information in our sample was though CY 1999.
- (3) The CY 2000 improper payments are shown in present day dollars.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

32008-24-857

Date: March 6, 2003 **Refer To:** S1J-3

To: James G. Huse, Jr.
Inspector General

From: Larry W. Dye /s/
Chief of Staff

Subject: Office of the Inspector General (OIG) Draft Report, "Review of the Social Security Administration's Processing of Internal Revenue Service Overstated Wage Referrals" (A-03-02-22068)—INFORMATION

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

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

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, “THE SOCIAL SECURITY ADMINISTRATION'S (SSA) PROCESSING OF INTERNAL REVENUE SERVICE (IRS) OVERSTATED WAGE REFERRALS” (A-03-02-22068)

We appreciate the opportunity to review and comment on the draft report and appreciate your efforts. Our comments to the specific recommendations are provided below.

Recommendation 1

Begin processing the IRS referrals, starting with the referrals that are most likely to: a) reduce overpayments, such as those related to individuals closer to retirement age; and b) minimize identity theft, such as those with higher disputed wages over multiple tax years.

Comment

We agree that this workload should be processed, but not in the priority recommended. This type of prioritization requires a considerable level of effort since the form does not contain age related information. Also, IRS does not correlate referrals for multiple tax years for the same individual and we receive forms from multiple IRS centers. Since this is a paper driven process and the referrals are backlogged by year, not by Social Security number, numberholder’s age or benefit status, we believe efforts to prioritize/sort this work is labor intensive and not cost-effective. Therefore, we will develop a work plan to begin processing the workload considering our current budget/resource constraints. We plan to start working the cases based on tax year and to screen the backlog of earlier tax years for those that may require no action. Based on sampling from previous years, we believe a large portion of this workload will require no action. Once the screening process is complete, we plan to prioritize those remaining cases.

This process will allow us to reduce the overall backlog while processing both current and aged forms. Throughout the process we will collect processing statistics for future resource/budget considerations and determine any procedural changes that may need to be made to the process.

Recommendation 2

Work with the IRS to establish and implement procedures to process the referrals, which could include: a) the IRS obtaining sufficient information from the numberholder to allow SSA to remove the wages without additional development; b) SSA requesting that future referrals be provided electronically to minimize handling at SSA; c) the IRS requesting that the numberholder contact SSA to correct the wages; or d) the IRS requesting that the employer send a corrected wage report to SSA.

Comment

We will form a workgroup with IRS to revisit the overall process and work with them to implement processing improvements that streamline and/or automate this workload.

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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.

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