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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**SUSPENDED AND NONWORK WAGES  
IN THE SOCIAL SECURITY  
ADMINISTRATION'S PAYROLL**

March 2006

A-03-05-15087

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**AUDIT REPORT**

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# SOCIAL SECURITY

## MEMORANDUM

Date: March 13, 2006

Refer To:

To: The Commissioner

From: Inspector General

Subject: Suspended and Nonwork Wages in the Social Security Administration's Payroll (A-03-05-15087)

## OBJECTIVE

Our objective was to determine whether Social Security Administration (SSA) employees are working under nonwork Social Security numbers (SSN) and/or names/SSNs that do not match the names/SSNs in SSA's records.

## BACKGROUND

Title II of the Social Security Act requires SSA to maintain records of wage amounts employers pay to individuals.<sup>1</sup> Each year, employers must send *Wage and Tax Statements* (Form W-2) to SSA to report the wages and taxes of their employees for the previous calendar year. The Forms W-2 include the employees' names, SSNs, and the Employer Identification Number (EIN).<sup>2</sup> SSA compares the names and SSNs on the Forms W-2 to the Numident.<sup>3</sup> Wages reported on Forms W-2 containing names and/or SSNs that do not match SSA's records cannot be posted to an individual's earnings record in SSA's Master Earnings File (MEF).<sup>4</sup> Instead, these wages are placed in SSA's Earnings Suspense File (ESF)—a repository for unmatched wages. As of October 2004, SSA's ESF contained approximately 246 million wage items totaling about \$463 billion in wages related to Tax Years (TY) 1937 through 2002 that could not

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<sup>1</sup> 42 United States Code (U.S.C.) § 405(c)(2)(A).

<sup>2</sup> The EIN is a 9-digit number assigned by the Internal Revenue Service (IRS) to sole proprietors, corporations, partnerships, estates, trusts, and other entities for tax filing and reporting purposes.

<sup>3</sup> The Numident is a record of identifying information (such as name, date of birth, date of death, mother's maiden name, etc.) provided by the applicant on his or her *Application for a Social Security Number* (Form SS-5) for an original SSN and subsequent applications for replacement SSN cards. Each record is housed in the Numident master file in SSN order.

<sup>4</sup> The MEF contains all earnings data reported by employers and self-employed individuals. The data is used to calculate the Social Security benefits due an individual with an earnings record.

be posted to individual earnings records.<sup>5</sup> In TY 2002 alone, the ESF increased by 9 million wage items and by \$56 billion in wages.

Wages reported on Forms W-2 with nonwork SSNs are recorded on the Nonwork Alien (NWALIEN) file.<sup>6</sup> SSA issues nonwork SSNs to individuals who lack Department of Homeland Security (DHS) work-authorization but have valid nonwork reasons for the SSNs.<sup>7</sup> Section 414 of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996 requires SSA to provide DHS information for individuals working under nonwork SSNs.<sup>8</sup> This file is sent annually to DHS, 6 to 18 months after the earnings occur. The annual NWALIEN file includes earnings for about 550,000 noncitizens working under nonwork SSNs.

### **Processing SSA's Payroll**

Beginning with TY 1998, the Department of Interior's (DOI) National Business Center (NBC) started processing SSA's payroll through its Federal Personnel Payroll System. NBC provides numerous services to the Federal sector to include personnel/payroll, finance/accounting, and transportation/travel. SSA is among over 20 Federal agencies receiving payroll services from NBC. As of Fiscal Year 2004, SSA's payroll included about 64,000 full and part-time employees.<sup>9</sup>

## **RESULTS OF REVIEW**

Of the 62,000 employees who worked at SSA during TYs 1999 through 2002, we found 94 employees had wages posted to SSA's NWALIEN file and ESF. Specifically, 33 employees with about \$2.6 million in wages<sup>10</sup> had worked during the 4-year period with nonwork SSNs that were assigned in TYs 1974 to 1991. As of July 2005, 17 were current employees whose work-authorization status still appeared to be unauthorized to work in SSA records (whereas the other 16 either had SSNs indicating authorization to work or were no longer working at SSA). In addition, we identified 61 employees, representing about \$184,000 in wages,<sup>11</sup> whose wages were placed in the ESF

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<sup>5</sup> These wages represent Federal Insurance Contributions Act (FICA) wages (26 U.S.C. § 3101 – § 3128).

<sup>6</sup> See Appendix B for a flowchart of the NWALIEN file process.

<sup>7</sup> SSA assigns nonwork SSNs to noncitizens if (1) a Federal statute or regulation requires that the non-citizen provide his/her SSN to receive a benefit or service to which he or she is entitled to or (2) a State or local law requires the noncitizen who is legally in the U.S. to provide his/her SSN to get public assistance benefits to which the noncitizen has otherwise established entitlement and met all other requirements.

<sup>8</sup> Public Law Number (Pub. L. No.) 104-208 Div C, Title IV, Subtitle B, Section 414(a).

<sup>9</sup> SSA's Fiscal Year 2004 Performance and Accountability Report.

<sup>10</sup> These wages represent total compensation, which includes wages, tips, and other compensation.

<sup>11</sup> This figure represents FICA wages.

because (1) the employees appeared to be deceased in SSA's records, (2) the employees disclaimed the wages, or (3) the reported names and/or SSNs did not match SSA's records. At the time of our review, three were current employees who still had wages in the ESF. Finally, we confirmed with the Agency staff that neither SSA nor DOI are verifying SSA employees' identity or work-authorization status through SSA's employee verification programs. If the Agency had taken advantage of its verification programs, it could have identified a number of these payroll issues. Although only a relatively small percentage (.15 percent)<sup>12</sup> of SSA employees had wages posted to the NWALIEN file and ESF, SSA should be a model for the employer community and ensure that it knows the identity and work-authorization status of its employees since they may have access to the Agency's programmatic and sensitive information as well as its facilities.

**Table 1: Status of SSA Employee Cases**

<b>Condition</b>	<b>Current SSA Employees</b>	<b>Former SSA Employees</b>	<b>Total</b>
Wages reported under a Nonwork SSN	24	9	33
Wages suspended in the ESF	3	58	61
<b>Total</b>	<b>27</b>	<b>67</b>	<b>94</b>

### **WAGES REPORTED WITH NONWORK SSNS**

For TYs 1999 to 2002, we found that 33 current and former SSA employees were working under SSNs that were originally issued as nonwork SSNs. SSA submitted 86 wage items for these employees totaling about \$2.6 million in wages for the 4-year period. The annual earnings for the employees ranged from about \$32 to \$74,000 and the median was about \$29,000.<sup>13</sup> Further, we found that the 33 employees were born in 17 different countries with the majority (18 individuals) born in 4 countries -- Taiwan, Iran, Nigeria, and the Philippines (see Appendix D).

We reviewed SSA's Numident and Personnel records as of July 2005 for the 33 employees to determine whether their work-authorization status had changed since their wages were placed in the NWALIEN file in TYs 1999 to 2002. As shown in Table 2, we found that 25 of the 33 employees were listed as unauthorized to work within SSA's records during our period of review and 8 employees were issued replacement Social Security cards in TYs 2001 to 2005 that indicated they were work-

<sup>12</sup> During TYs 1999 to 2002, SSA employed more than 62,000 employees for each year. Therefore, at most the 94 employees with wages posted to the NWALIEN file and ESF represented .15 percent of the Agency's payroll. The administrative data was obtained from SSA's Executive and Management Information System.

<sup>13</sup> The average annual earnings for these employees were about \$30,000.

authorized.<sup>14</sup> Of the 25 employees who appeared to be unauthorized to work, 17 were still working at SSA in various regional offices as well as headquarters components. After referring these 17 cases to SSA staff, 15 of the employees have updated their information in SSA's records and now have a Social Security card showing them as authorized to work.<sup>15</sup>

**Table 2: Work-Authorization Status for 33 Current and Former SSA Employees**

<b>Work Status</b>	<b>Current SSA Employees</b>	<b>Former SSA Employees</b>	<b>Total</b>
Unauthorized	17	8	25
Authorized	7	1	8
<b>Total</b>	<b>24</b>	<b>9</b>	<b>33</b>

### Changing Work-Authorization Status

As shown by the status change for the eight employees, SSA will issue work-authorized SSNs to noncitizens who were originally issued nonwork SSNs when the Agency learns DHS has changed their work status. However, SSA does not always learn of such changes because DHS does not routinely inform SSA when it changes a person's employment status from unauthorized to authorized. Further, noncitizens do not always report changes in their work-authorization status to SSA. We learned that prior to 2002, SSA did not explicitly request that noncitizens report their change in status so they could be issued a work-authorized SSN.<sup>16</sup> SSA assigned the original nonwork SSNs as well as issued replacement cards to the 33 employees from 1974 to 1991, at least 14 years ago. Therefore, they may not have been advised to report changes to their work-authorization status.

<sup>14</sup> We did not confirm with DHS that it had issued the individuals work-authorization documents.

<sup>15</sup> For the remaining two employees, one employee has yet to update their work authorization status and the other is no longer an SSA employee.

<sup>16</sup> Today a noncitizen receives an instructions from SSA with the issued Social Security card, which states "You should contact us to update your Social Security number records if your name, your U.S. citizenship status, or your status as an alien in the U.S. changes. You will need to file an application for a corrected Social Security card and provide proof of your identity and we may request certain other evidence supporting the change....If you are an alien without permission to work in the U.S., your Social Security card will be marked 'NOT VALID FOR EMPLOYMENT.' We will notify U.S. immigration officials if you use the number to work."

## Employment Eligibility Verification Forms

The Immigration Reform and Control Act of 1986 (IRCA)<sup>17</sup> requires SSA, as well as all employers, to certify whether their employees are authorized to work in the United States and makes it illegal for employers to knowingly hire unauthorized noncitizens.<sup>18</sup> Under this Act, employers must use the DHS issued *Employment Eligibility Verification Form* (Form I-9) to certify an employee's work-authorization. SSA hired the 33 employees from 1995 to 2002 and therefore was required to complete the Form I-9 for these employees. However, the SSN card is only one of many documents<sup>19</sup> that can be presented, so an employee does not need to submit a nonwork Social Security card, which would clearly show the label "NOT VALID FOR EMPLOYMENT" prohibiting its use for work.<sup>20</sup> Therefore, it is possible that the 25 employees who appeared to be unauthorized to work in SSA records were in fact authorized to work at the time they were hired and provided the appropriate work-authorization documents to Human Resources, but failed to update their work status information with SSA.

## WAGES PLACED IN THE EARNINGS SUSPENSE FILE

Our review found that 61 employees, of which 3 were still working at SSA, had 94 wage items placed in the ESF. These items totaled about \$184,000 in wages and ranged up to about \$53,000 in annual earnings. SSA placed these items in the ESF because (1) the employees appeared to be deceased in SSA records—Earnings After Death (EAD), (2) the employees disclaimed the wages—Scrambled Wage Earnings Discrepancy (SWED), or (3) the reported names/SSNs did not match SSA records. However, SSA has resolved 19 of the 61 cases involving deceased individuals or name/SSN mismatches, including two of the three cases related to current employees.

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<sup>17</sup> Pub. L. No. 99-603, 8 U.S.C. 1324a.

<sup>18</sup> IRCA also states that, as long as: (1) an employee's documents are allowed by law; (2) appear to be genuine on their face; and (3) relate to the person, the documents should be accepted. The employer is to maintain a DHS-issued *Employment Eligibility Verification Form* (Form I-9) for each employee up to 3 years.

<sup>19</sup> The Form I-9 presently lists up to 25 types of documents issued by various Federal, State, and local agencies that are acceptable for completing the Form I-9.

<sup>20</sup> As we noted in our September 2001 report, *Management Advisory Report: Review of Service Industry Employer with Wage Reporting Program* (A-03-00-10022) the variety of acceptable identification may discourage employers from verifying these documents. Acceptable records include but are not limited to: (1) DHS identity and work-authorization documents; (2) U.S. passports; (3) Social Security cards; (4) State and local government records; and (5) records from schools, medical facilities, and the military services.

**Table 3: Reason for Suspended Wage Items**

<b>Reason</b>	<b>Current SSA Employees</b>	<b>Former SSA Employees</b>	<b>Total</b>
EAD	1	54	55
SWED	1	2	3
Mismatch Name/SSN	1	2	3
<b>Total</b>	<b>3</b>	<b>58</b>	<b>61</b>

### Earnings After Death

SSA assigned an EAD indicator in the ESF to 55 employees, including 1 current employee, representing 87 wage items totaling about \$85,800 in wages. SSA assigns this indicator as part of the validation of the Annual Wage Reporting process. SSA reviews the Numident to determine whether a date of death is present and if the wages were reported after the year of death. We reviewed SSA records and found the following.

- For 37 former employees (37 wage items), the wages were reported up to 6 years after death. Through discussions with SSA staff, we were advised that these cases may pertain to settlement agreements.<sup>21</sup> However, as we noted in our August 2002 report, *Effectiveness of SSA's Earnings After Death Process (A-03-01-11035)*, wages paid the year after death should be reported as miscellaneous income on an IRS *Miscellaneous Income Form 1099* rather than wages on a Form W-2.
- For 17 former employees (49 wage items), it appears that SSA corrected the reporting errors by filing a corrected wage report, known as a *Statement of Corrected Income and Tax Amounts (Form W-2C)*. However, the original Form W-2

<sup>21</sup> In November 1996 and July 1998, SSA and the American Federation of Government Employees (AFGE) entered into settlement agreements resolving several grievances filed by the AFGE under the Fair Labor Standard Act regarding "suffer or permitted" overtime. The November 1996 agreement covered SSA Headquarters Office employees represented by AFGE local 1923. Eligible employees received a one-time payment in settlement of their claim for the period covering from 1982 through 1996. The employees were eligible to appeal this payment and present evidence that they were entitled to a greater payment. For the July 1998 agreement, SSA bargaining unit employees (current, former, or their survivors) who met the applicable criteria were eligible to receive a settlement payment for the period beginning in December 1981 until the time of payment. According to SSA staff, payments made under these settlement agreements were paid in TYs 1998 through 2000.



- and the Form W-2C will remain in the ESF because these items cannot be removed from the ESF and reinstated to the individuals' earnings record.<sup>22</sup>
- For one current employee, SSA posted her TY 2002 wages in the ESF although no date of death was present on Numident record. It is possible that an erroneous date of death was present on the Numident at one time, but we could not confirm this fact since SSA's system does not establish an audit trail when a date of death is removed from the record. The employee has wages posted to her earnings record for subsequent TYs. We informed SSA staff about this discrepancy and they have since reinstated the wage item to the individual's earnings record.

### Scrambled Wage Earnings Discrepancy

SSA assigned a SWED indicator in the ESF to three employees, including one current employee, representing four wage items totaling about \$85,600 in wages. SSA assigns this code when wages or self-employment income for one wage earner has been posted to another wage earner's record or the individual notifies SSA or the IRS<sup>23</sup> that he/she did not earn the wages. We reviewed SSA's records and found the following.

- For two former employees, representing two wage items, it appears they disclaimed the wages paid by SSA. In both cases, the employees were in a leave without pay status during their last year of employment with SSA. One of the individuals disputed the wages when she filed for disability benefits. We referred these cases to SSA for further review.
- For one current employee, representing two wage items, the case may involve potential SSN misuse. It appears that two individuals were using the same SSN to work and one of these individuals disputed the wages with the IRS. Upon receiving notification from the IRS, SSA removed wages reported by several employers including SSA wages from the numberholder's earnings record. We referred this case to our Office of Investigations for further review.

### Mismatched Names and Social Security Numbers

We identified three employees, including one current employee, who had about \$13,000 in wages that were placed in the ESF because the name and/or SSN combinations did not match SSA records. We reviewed SSA's records and found the following.

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<sup>22</sup> In our August 2002 report, *Effectiveness of SSA's Earnings After Death Process* (A-03-01-11035), we recommended that the Agency remove from the ESF all wage items related to employees whose deaths are confirmed by employers. However, SSA stated that it is the Agency's policy not to remove items from the ESF if they cannot be posted to an individual's MEF Record and that there is no mechanism for simply deleting items from the ESF.

<sup>23</sup> SSA receives an *IRS/SSA Wage Worksheet* (Form 9409) from the IRS when a taxpayer disputes wages. The form also includes the steps taken by the IRS to resolve the issue. We discuss this issue further in our March 2003 report, *The Social Security Administration's Processing of Internal Revenue Service Overstated Wage Referrals* (A-03-02-22068).

- For one former employee, it appears she may have used an SSN that did not belong to her. The employee, who was hired under the stay-in-school program and worked for 1 month, used the SSN of a 3-year old. Using the information contained in the employee's file, we queried SSA's Alpha-Index File<sup>24</sup> and were not able to locate an SSN that had been assigned to the employee. We referred this case to SSA for review.
- For one former employee, the first and middle name matched SSA records, but the last name was not the same. It appears that the employee indicated the name change on his Form SS-5, but SSA failed to update his Numident record with this information. We informed SSA of the discrepancy.
- For one current employee, it appears SSA improperly formatted the employee's name on the Form W-2. The first and last names were recorded in the data field used to report the last name. SSA became aware of the problem and reinstated the wages to the individual's earnings record.

## **VERIFICATION OF IDENTITY AND WORK-AUTHORIZATION STATUS**

SSA has front-end controls in place, such as employee background investigations, to validate the identity of newly-hired employees. SSA and DOI can also use various employee verification programs to detect potential identity and work-authorization issues for new and existing employees.

### **Suitability Background Investigations**

SSA conducts suitability background investigations on most new employees<sup>25</sup> as part of the hiring process.<sup>26</sup> The type of background investigation depends upon the position's risk designation—Public Trust or National Security. According to SSA staff, about 90 percent of SSA's positions are designated as Public Trust, non-sensitive or low risk and require a National Agency Check and Inquiry background investigation. This type of investigation involves a Federal Bureau of Investigation (FBI) fingerprint and name check for any possible prior criminal record; check of military records; check of former

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<sup>24</sup> The Alpha-Index File maintains identifying information of each SSN numberholder. The system allows for the grouping together, in one code group, all surnames which have the same basic consonant sounds. The Alpha-Index File is a useful tool that is available to SSA personnel to locate an individual's SSN when it is unknown.

<sup>25</sup> For example, student interns do not always require a background check.

<sup>26</sup> Federal agencies are now required to meet the President Directive, *Policy for a Common Identification Standard for Federal Employees and Contractors* (HSPD-12), dated August 2004. This directive requires that all Department and Agency heads conduct background investigations of current employees and contractors who have access to federally-controlled facilities and/or information systems. These investigations must be completed by October 2008.

employers; and verification of education.<sup>27</sup> National Security positions require more extensive National Agency Checks as well as additional reviews, such as credit checks. It is possible that the background investigations may identify instances where the individual (1) lacks proper work-authorization and/or (2) is misusing an SSN.

### **Employee Verification Program**

SSA administers or participates in a number of employee verification programs, yet the Agency does not use these programs to verify its own employees. SSA's employee verification programs include:

- Employee Verification Program—an electronic program available to all employers to ensure their employees names and SSNs are valid “before” the employer submits their Form W-2s to SSA;<sup>28</sup>
- Social Security Number Verification Service—an on-line program that enables employers and submitters to verify employees names and SSNs with information in SSA records; and
- Basic Pilot—a joint effort between SSA and DHS to assist employers with verifying newly-hired employees' authorization to work in the United States.

We found that neither SSA nor DOI, SSA's payroll provider, has taken advantage of the employee verification programs, which may identify discrepancies not discovered during background investigations. According to SSA staff, the individuals responsible for hiring are not required to use these programs and may not be aware of their existence. SSA's use of its own verification programs could (1) assist with the hiring process by verifying the employees' identities and work-authorization status, (2) ensure successful processing of its annual wage reports submissions and the proper crediting of employees' earnings records, and (3) demonstrate to the employer community that it is proactive in verifying its own payroll. Further, if the Agency would have taken advantage of these verification service programs, it could have identified some of the wage items reported with nonwork SSNs, SSNs of deceased individuals, and/or names/SSNs mismatches.

### **UPDATING PERSONNEL RECORDS**

We found that the personnel records for 4 of the 24 current and former SSA employees were not updated in SSA's personnel records to reflect the corrected SSNs used to post the employees wages to their earnings record. As of October 2004, 24 employees, representing 27 wage items, had wages reinstated to their MEF from the ESF for

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<sup>27</sup> The National Agency Checks include Security/Suitability Investigations Index, Defense Clearance and Investigation Index, FBI Name Check, and FBI National Criminal History Fingerprint Check. The *National Agency Check with Written Inquiries* includes all of the National Agency checks plus searches of records covering specific areas of an individual's background during the past 5 years.

<sup>28</sup> See Appendix E for more details about the employee verification programs.

TYs 1999 to 2002.<sup>29</sup> SSA uses a variety of editing routines and other processes to correct and post many of the wage items with name and/or SSN mismatches or other problems. The 27 items were reinstated using about 9 routines and processes discussed in Appendix F.

SSA's process for updating its Human Resource Management Information System (HRMIS)<sup>30</sup> database with the corrected employee information obtained during the reinstatement process needs improvement. HRMIS is a computer-based, multi-file personnel records system designed to meet SSA's needs for data, statistics, and information on the characteristics of SSA workforce. We found that the personnel records for four former SSA employees with corrected SSNs were not updated in HRMIS. The incorrect SSNs included in HRMIS appeared to relate to transposition errors since most were off by one digit. In all four cases, the individuals either retired or were terminated under the incorrect SSNs. It is vital that employee personnel records are accurate to ensure the employees received proper credit for their Government service as this information may be transferred to other Federal agencies or to the Office of Personnel Management. We referred these four cases to SSA for review.

## **CONCLUSION AND RECOMMENDATIONS**

Although only a relatively small percentage of SSA employees had wages posted to the NWALIEN file and the ESF, SSA should be a model for the employer community and ensure that it knows the identity and work status of its employees since they may have access to the Agency's programmatic and sensitive information as well as its facilities. Therefore, we recommend SSA:

1. Consider using the verification programs as appropriate in the (1) hiring process to verify employees' identities and work-authorization status and (2) wage reporting process to ensure employees receive proper credit for their earnings.
2. Make the necessary corrections to payroll, personnel, and/or Numident records for the cases referred during the audit.

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<sup>29</sup> The ESF Reinstatement 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. As a result, the number above undercounts the actual number of reinstatements.

<sup>30</sup> HRMIS serves as the database for SSA staffing, promotion plan operations, personnel research and program evaluation, equal opportunity statistics, management information, planning and budgeting for training, internal and external reporting, and position control.

**AGENCY COMMENTS**

SSA agreed with our recommendations. The Agency also provided technical comments that we considered in preparing our final report. The full text of the Agency's comments is included in Appendix H.

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*

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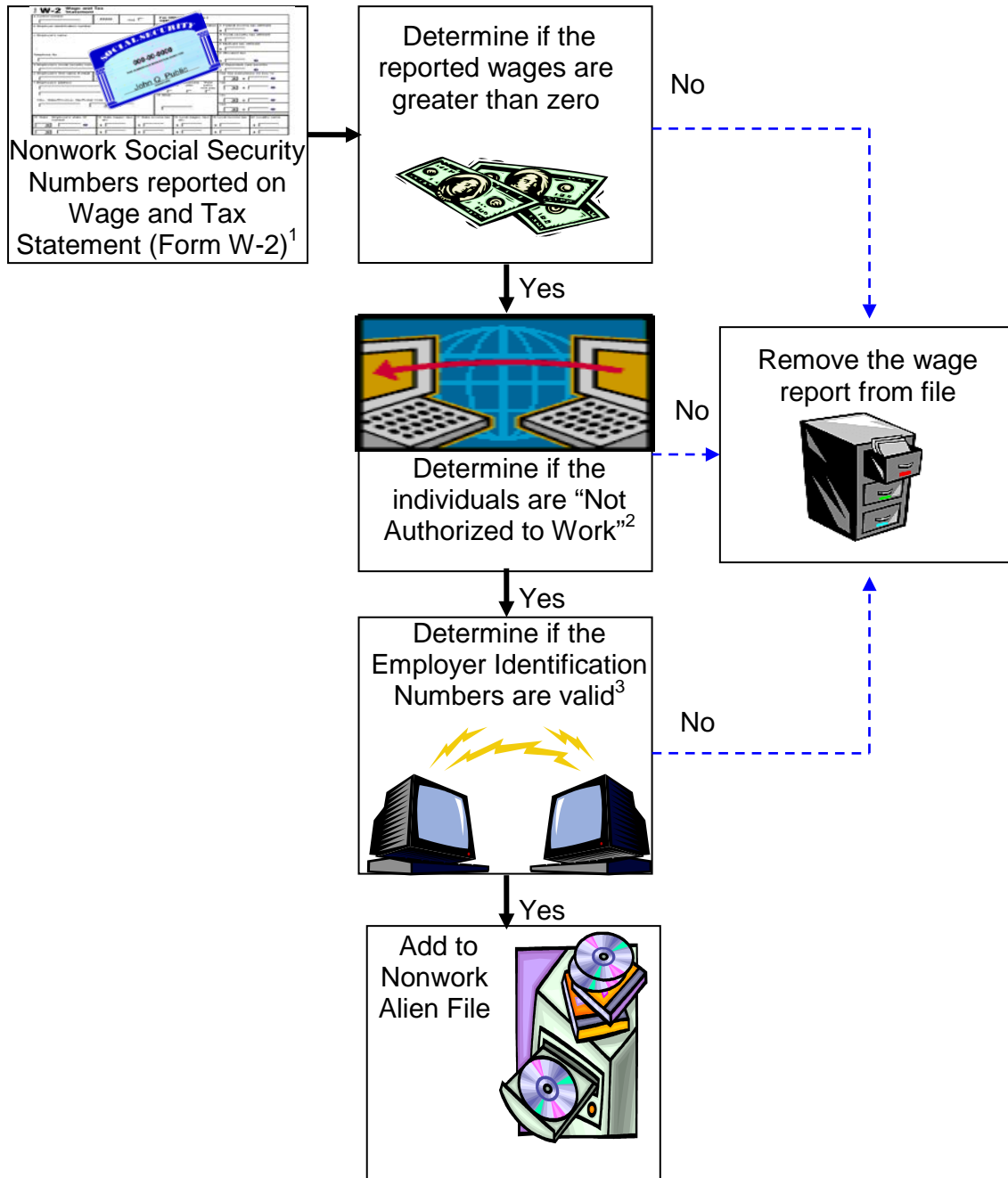
### Acronyms

DECOR	Decentralized Correspondence
DHS	Department of Homeland Security
DoB	Date of Birth
DOI	Department of Interior
EAD	Earnings After Death
EIN	Employer Identification Number
ESF	Earnings Suspense File
EVS	Employee Verification Service
FBI	Federal Bureau of Investigation
FICA	Federal Insurance Contributions Act
HRMIS	Human Resources Management Information System
IRCA	Immigration Reform and Control Act of 1986
IRS	Internal Revenue Service
MEF	Master Earnings File
NBC	National Business Center
NH	Numberholder
NWALIEN	Nonwork Alien
OIG	Office of the Inspector General
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSN	Social Security number
SSNVS	Social Security Number Verification Service
SWED	Scrambled Wage Earnings Discrepancy
TY	Tax Year
U.S.C.	United States Code
WBDOC	Wilkes-Barre Data Operations Center
YCER	Young Children's Earnings Record

#### Forms/Numbers

Form I-9	<i>Employment Eligibility Verification Form</i>
Form I-94	<i>Arrival/Departure Record</i>
Form SS-5	<i>Application for a Social Security Card</i>
Form W-2	<i>Wage and Tax Statement</i>
Form W-2C	<i>Statement of Corrected Income and Tax Amounts</i>
"A" Number	Alien Registration Number
I-94 Number	Arrival/Departure Number

# Nonwork Alien File Flowchart



*Note 1:* The file includes Form W-2s that were validated against SSA's Numident records as part of the Annual Wage Reporting process.

*Note 2:* The Numident record includes codes (i.e. citizenship status code) that identifies whether an individual is authorized to work in the United States.

*Note 3:* The Employer Identification Numbers are validated against SSA's Employer Identification File.



### Scope and Methodology

To accomplish our objective, we:

- Reviewed pertinent sections of the Social Security Administration's (SSA) policies and procedures as well as other relevant Federal laws and regulations.
- Reviewed Office of the Inspector General and Government Accountability Office reports and other relevant documents.
- Interviewed SSA staff to gain an understanding of the Earnings Suspense File (ESF) and Nonwork Alien (NWALIEN) file.
- For the one Employer Identification Number used by SSA during Tax Years (TY) 1999 through 2002, obtained a data extract from SSA's ESF, NWALIEN file, and Reinstatement file. We then analyzed the trends in this extracted data.
- Reviewed personnel records included in the Human Resource Management Information System for employees included in the NWALIEN file and ESF to determine current employment status, position description, and work location.
- Reviewed and analyzed SSA's Numident and Master Earnings File for employees with wages posted to the NWALIEN file to determine (1) when the employees were enumerated and (2) their work history.
- Reviewed documentation related to registered users of SSA's employee verification programs—Employee Verification Service, Social Security Number Verification Service, and the Basic Pilot.

Our audit did not include an evaluation of SSA's internal controls over the wage reporting process. The purpose of our review was to determine whether employees at SSA were working under nonwork SSNs and/or SSNs that do not match the names/Social Security numbers during TYs 1999 through 2002. We compared the NWALIEN file data to SSA's records and determined that the NWALIEN file data was sufficiently reliable to accomplish our objectives. However, we did not verify each employee's work-authorization status with the Department of Homeland Security. Further, we did not focus our efforts on the collection of wage reporting data, nor did we attempt to establish the reliability or accuracy of such data. The entities audited were SSA's Office of Earnings Operations and Administrative Systems under the Office of the Deputy Commissioner for Systems and the Office of Personnel under the Deputy Commissioner for Human Resources. We conducted our audit between September 2004 and July 2005 in Philadelphia, Pennsylvania. We conducted our audit in accordance with generally accepted government auditing standards.

## Summary of SSA Employees

We reviewed the Nonwork Alien (NWALIEN) file and the Earnings Suspense File (ESF) for Tax Years (TY) 1999 through 2002 to determine the number of wage items that were related to the Social Security Administration's (SSA) payroll and found:

- 33 employees, which related to about 86 wage items, had wages placed in the NWALIEN file because they were working under nonwork Social Security numbers (SSN) (see Table D-1).
- 61 employees, related to about 94 wage items, had wages placed in the ESF because they were working under SSNs that did not match the names and/or SSNs in SSA's records (see Table D-1).

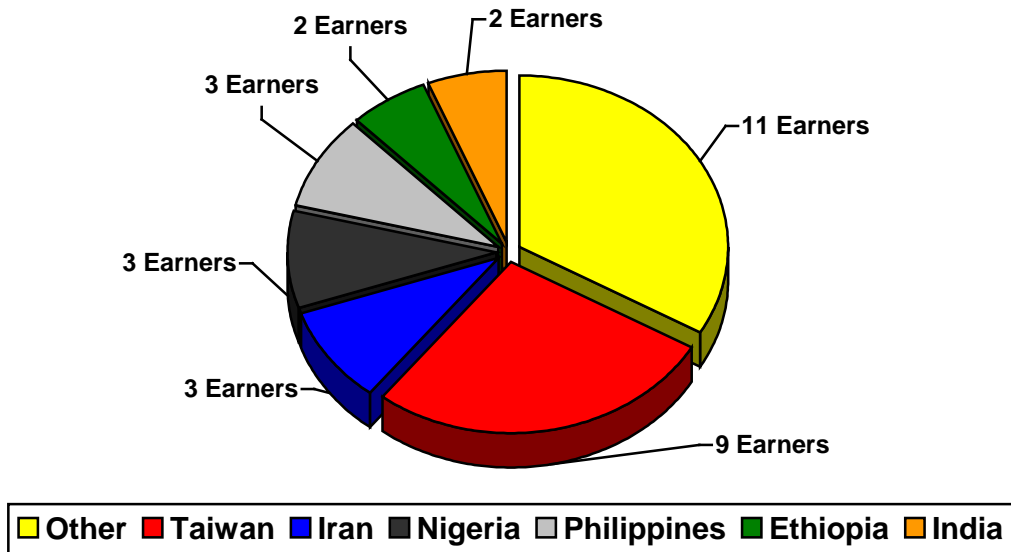
**Table D-1: Summary of SSA Employees with Placed in the NWALIEN File and ESF (Tax Years 1999 - 2002)**

Nonwork Alien File			
Reasons for Nonwork Wages	Wage Earners	Wage Items	Total Wages
Used an SSN not authorized for work	33	86	\$2,604,565
<b>NWALIEN File Total:</b>	<b>33</b>	<b>86</b>	<b>\$2,604,565</b>
Earnings Suspense File			
Reasons for Suspended Wages	Wage Earners	Wage Items	Total Wages
<u>Special Indicators</u>			
Earnings After Death Report	55	87	\$85,871
Scrambled Wage Earnings Discrepancy	3	4	\$85,621
Sub Total:	58	91	\$171,492
<u>Mismatched Names &amp; SSNs</u>			
Reported names and/or SSNs did not match SSA's records	3	3	\$12,817
Sub-total:	3	3	\$12,817
<b>ESF Total:</b>	<b>61</b>	<b>94</b>	<b>\$184,309</b>

Source: NWALIEN file and ESF

As shown in the Figure D-1, we found that the 33 employees who working under nonwork SSNs were born in 17 different countries with the majority (18 individuals) born in 4 countries -- Taiwan, Iran, Nigeria, and the Philippines.

**Figure D-1: Countries of Birth for SSA Employees With Earnings Under Nonwork SSNs**



Source: SSA Numident Records

Note: The Other category had 11 earners from 11 different countries: Afghanistan, China, Costa Rica, Cuba, Guatemala, Haiti, Poland, Somalia, Trinidad, United Kingdom, and Venezuela.

# Employee Verification Programs

The Social Security Administration (SSA) has a number of programs to assist employers with wage reporting process. Below we discuss some of the various programs, such as (1) Employee Verification Service (EVS), (2) Social Security Number Verification Service (SSNVS), and (3) the Basic Pilot.

## Employee Verification Service

EVS and SSNVS are SSA's two primary verification programs made available to employers to verify employees' names and Social Security numbers (SSN). EVS and SSNVS are available to employers to ensure their employees' names and SSNs are valid before the employer submits their Forms W-2 to SSA.<sup>1</sup> Employers must register to gain access to these programs.

Under EVS, requests can be submitted on magnetic media (tape, cartridge, or diskette) or paper.<sup>2</sup> For each employee record to be verified through the registered user process, employers must submit three required elements: employee's SSN, last name, and first name. Employers can also provide optional data as well, such as date of birth and gender. Through EVS, SSA confirms whether the name, SSN, date of birth, and gender of an employee matches SSA's records. As of January 2004, SSA may disclose certain death responses to employers when the wage earner's record indicates that they are deceased.<sup>3</sup>

SSNVS, which was implemented nationwide in June 2005, is an on-line service that enables employers and submitters to verify whether employees' names and SSNs matches the information in SSA's records. Employers can either verify up to 10 names and SSNs (per screen) on-line and receive immediate results or upload batch files of up to 250,000 names and SSNs and usually receive results the next Government business day.

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<sup>1</sup> The use of these systems is voluntary and can assist employers in eliminating common SSN reporting errors.

<sup>2</sup> In addition, employers can also verify (1) up to 5 names/SSNs by calling SSA's toll-free number for employers and/or (2) up to 50 names/SSNs by sending a fax to an SSA field office.

<sup>3</sup> Under 42 United States Code (U.S.C.) § 205 SSA may not disclose certain State death information.

## Basic Pilot

The Basic Pilot is a SSA and Department of Homeland Security (DHS) joint program whereby employers verify the employment eligibility of newly-hired employees.<sup>4</sup> This voluntary program helps employers determine whether an individual is eligible to work in the United States, which could help SSA avoid reporting these earnings to the Nonwork Alien file. The President signed the Basic Pilot Program Extension and Expansion Act of 2003 (Public Law Number 108-156) into law on December 3, 2003. This law extended the operation of the Basic Pilot for an additional 5 years (to a total of 11 years) and expanded the operation to all 50 States not later than December 1, 2004.

As discussed with SSA staff, the Basic Pilot involves using the information in Government databases (SSA databases and, if needed, DHS databases) to determine the employment eligibility of new hires. The Social Security number (SSN) and Alien Registration Number ("A" Number)<sup>5</sup> or I-94 Arrival/Departure Number (I-94 Number)<sup>6</sup> are used for these checks. The employer must complete the DHS-issued *Employment Eligibility Verification Form* (Form I-9) for each employee and then enter elements of this data into the Basic Pilot within 3 days of hiring, including the employee's SSN, name, date of birth (DoB), and whether the new-hire indicated he/she was a U.S. citizen and, if not the "A" Number or I-94 Number.

The system first checks the information entered against SSA's database to verify the name, SSN, and DoB of all newly-hired employees, regardless of citizenship. When the Numident shows the U.S. as the place of birth for the newly-hired employee or a code indicating the number holder is a U.S. citizen, the Basic Pilot automated system confirms employment eligibility. If the Basic Pilot system cannot confirm employment eligibility based on the information in SSA's database or an "A" Number or I-94 Number was entered, the Basic Pilot system automatically checks the data against DHS' database.

The employer will receive notification of "SSA tentative non-confirmation" of employment eligibility when the SSN, name, or DoB does not match the information in SSA's database. Also, employers will receive a "SSA tentative non-confirmation" if the new-hire indicated he/she was a U.S. citizen and SSA's records did not show that the person was a U.S. citizen. The employer will receive notification of "DHS tentative non-

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<sup>4</sup> Section 401 of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996 (8 U.S.C. § 1324a).

<sup>5</sup> The "A" number is the 8 of 9-digit number following "A" which is shown on the "green card" or *Permanent Resident Card* (formerly the I-551 *Alien Registration Receipt Card*), the *Employment Authorization Document* (I-766 and I-688B), and on certain other immigration documents and notices. For newly admitted immigrants, the "A" number is shown on the machine readable immigrant visa affixed to the foreign passport.

<sup>6</sup> The I-94 Number is the 11-digit number located on the *Arrival-Departure Record* (Form I-94). The Form I-94 shows the date one arrived in the United States, the "Admitted Until" date, and the date when his/her authorized period of stay expires.

confirmation" of employment eligibility when DHS' database does not show the new-hire as authorized for employment. In these cases, the employer asks the employee whether he/she wishes to contest the tentative non-confirmation. If contested, the employee must contact SSA or DHS within 8 Government working days of the notification. After the employee contacts SSA or DHS to correct the record, the employer resubmits the query through the Basic Pilot system. If the system does not confirm employment eligibility after the employer resubmits the query, the employer may terminate the new-hire.

## Edit Routines and Processes

As of October 2004, we found that 24 employees, representing 27 wage items, had wages reinstated to their Master Earnings File (MEF) from the Earnings Suspense File (ESF) for Tax Years 1999 to 2002. Social Security Administration (SSA) uses a variety of editing routines and other processes to correct and post many of the wage items with name and/or Social Security number (SSN) mismatches or other problems, both before and after items are posted to the ESF. As shown in Table F-1, the 27 wage items were reinstated using about 9 routines and processes. We found the edit known as *Reinstate from Internal Revenue Service (IRS)* resolved the most wage items - six items representing 22 percent. For this 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.

**Table F-1: Social Security Administration  
Reinstatements for Tax Years 1999 to 2002**

Reinstatement Process	Wage Items	Percentage
Reinstate from IRS	6	22%
Match to Prior Reinstatements	4	15%
Earnings Cross Reference Record <sup>1</sup>	4	15%
GAP SWEEP	3	11%
Earnings After Death Online	3	11%
Single Select	3	11%
Decentralized Correspondence	2	7%
Ferret Operation	1	4%
SWEEP Operation	1	4%
<b>Total Reinstated Wage Items</b>	<b>27</b>	<b>100%</b>

Note 1: These four records relate to two SSA employees who had wages transferred from one earnings record to another earnings record. As a result, these wage items were counted twice in the ESF Reinstates File.

SSA has taken steps over the past years to reduce the size and growth of the ESF. Below we discuss some of the various mechanisms available to assist employers, such as (1) various edit processes and (2) correspondences to employers and employees.

### Edit Processes

SSA uses a variety of editing routines and other processes to correct and post many of the wages items with name/SSN mismatches or other problems, both before and after they go into the ESF. The following is a description of the various edits.

- **Overnight Validation:** This process 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 Select operation described below. Suspended items not corrected by Single Select 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 Form W-2 and re-key any incorrect items. They also input the employee address, if available,<sup>1</sup> to all returned items—whether corrected or not—for later Decentralized Correspondence (DECOR) and FERRET activities (see following page).
- **Single Select:** 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 record matches the reported name, the item is reinstated.
- **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 performs a sight comparison to review reported data against on-line SSA records and make judgments to accept wage items for MEF posting or send the data back to the ESF.
- **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.
- **GAP SWEEP:** GAP SWEEP is a newly developed routine that scans earnings records for valid SSNs in the ESF and assesses whether yearly gaps in earnings exist in the MEF record and might be linked to similar earnings in the ESF.
- **Item Correction:** This process allows SSA staff to correct the earnings record of an individual through a system called Earnings Modernization 2.8. The 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 a paperless system—with proofs and rationale recorded electronically after an initial inspection by an SSA employee(s).

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<sup>1</sup> SSA correspondence would use the employer address when the employee address is not available.



- **Reinstatements from the IRS:** While SSA is attempting to resolve mismatched names and SSNs within the ESF; 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. Employers, their representatives, third parties, and agents submit wage data to both agencies. 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.<sup>2</sup>
- **FERRET:** FERRET is a periodic electronic operation that uses SSA and IRS records to make reinstatements from the ESF to wage earners' records. WBD0C creates the FERRET file—basically an address file—from the nonresponder 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.
- **New Edits:** The Agency has also modified its automated processes to improve the identification of numberholders (NH) related to items in the ESF. SSA stated the new processes use information stored on the earnings and benefits records whereas previous internal edits only used the names and SSNs related to the suspended wages.

### Correspondence to Employers and Employees

SSA sends out millions of letters to employers and employees each year. The four main letters sent to employers and employees are (1) DECOR, (2) Educational Correspondence (EDCOR), (3) Earnings After Death (EAD), and (4) Young Children's Earnings Record (YCER).

- **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 the returned DECOR notices, validates the information provided, and if appropriate, removes the wage item from the ESF

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<sup>2</sup> 26 United States Code § 6721 (2003).

for posting to an individual's MEF record.<sup>3</sup> If individuals do not respond to DECOR notices, their information goes through the FERRET operation.

- **EDCOR:** When SSA processes a Form W-2 report with a name and/or SSN that does not match SSA's records, it sends a notice to the employer. These notices state that SSA received wage items that could not be validated and list up to 500 SSNs in an attachment, but do not provide names. SSA requests that employers file corrected Form(s) W-2 to correct the error(s). The notices sent to employers also specify that mismatches do not imply that incorrect information was intentionally provided and that the letter is not a basis, in and of itself, for an employer to take any adverse action against an employee.

SSA is now sending notices to all employers who submitted 10 or more Forms W-2 that SSA could not process, and the mismatched forms represent more than 0.5 percent of the total Forms W-2 reported to SSA.

- **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 earning items reported for TYs after the year of death are placed in the ESF. The earnings are also transmitted to an EAD investigative file so that notices can be printed and mailed to employers and/or earners. SSA sends EAD notices to employers and employees. 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 interviews the individual and verifies 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. We reviewed the EAD process in a prior audit report.<sup>4</sup>
- **YCER:** Another unusual earnings pattern monitored by SSA relates to young earners. Under the YCER process, SSA checks the Date of Birth (DoB) for the SSN on each earnings report. If a DoB indicates that the NH of the SSN is a child under the age of 7, the earnings will be placed into the ESF. When the Form W-2 reporting process is complete, an YCER investigate file is generated to determine whether the earnings belong to the reported SSN; i.e. a child under the age of 7. SSA sends YCER notices to employers and employees. Employer responses are returned to SSA for processing. If the employer states the NH's SSN, name and DoB agree with SSA's records, the wages are reinstated to the NH. If the employer states the

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<sup>3</sup> SSA Office of the Inspector General (OIG), *Effectiveness of the Social Security Administration's Decentralized Correspondence Process (A-03-01-11034)*, July 2002.

<sup>4</sup> SSA OIG, *Effectiveness of the Social Security Administration's Earnings After Death Process (A-03-01-11035)*, August 2002.

NH's name and SSN are the same as SSA's records, but the DoB is different, a form is sent to the NH 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 NH of the SSN did not work for them, a letter is sent to the NH of the SSN asking him or her to contact the local SSA field office.

## Prior Audit Reports

<b>Social Security Administration, Office of the Inspector General                      Reports Related to the Earnings Suspense File and Nonwork Alien File</b>		
Common Identification Number	Report Title	Date Issued
A-03-05-25127	Unauthorized Work Social Security Numbers at the Department of Defense	September 2005
A-03-05-25007	Usefulness of Decentralized Correspondence in Focusing Employer-Assistance Activities	September 2005
A-03-04-14041	Department of Defense Wage Items in the Earnings Suspense File	March 2005
A-14-03-23071	Profile of the Social Security Administration's Non-Work Alien File	September 2003
A-03-03-23053	Congressional Response Report: Social Security Administration Benefits Related to Unauthorized Work	March 2003
A-03-02-22068	The Social Security Administration's Processing of Internal Revenue Service Overstated Wage Referrals	March 2003
A-03-03-23038	Congressional Response Report: Status of the Social Security Administration's Earnings Suspense File	November 2002
A-03-02-22008	The Social Security Administration's Employee Verification Service for Registered	September 2002
A-03-01-11035	Effectiveness of the Social Security Administration's Earnings After Death Process	August 2002
A-03-01-11034	Effectiveness of the Social Security Administration's Decentralized Correspondence Process	July 2002

## Agency Comments



## SOCIAL SECURITY

### MEMORANDUM

**Date:** February 22, 2006 **Refer To:** S1J-3

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

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

**Subject:** Office of the Inspector General (OIG) Draft Report, "Suspended and Nonwork Wages in Social Security Administration's Payroll" (A-03-05-15087)--INFORMATION

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

Please let me know if you have any questions. Staff inquiries may be directed to Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at extension 54636.

Attachment:  
SSA Response

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL’S (OIG) DRAFT REPORT, “SUSPENDED AND NONWORK WAGES IN THE SOCIAL SECURITY ADMINISTRATION’S PAYROLL” (A-03-05-15087)**

Thank you for the opportunity to review and provide comments on this draft report. The Agency agrees that SSA serves as a model for the employer community and that we should know the identity and work status of our employees.

**Recommendation 1**

Consider using the verification programs as appropriate in the: 1) hiring process to verify employees’ identities and work-authorization status; and 2) wage reporting process to ensure employees receive proper credit for their earnings.

**Comment**

We agree. SSA will use the Numident record to verify that all SSA new hires’ names and Social Security numbers (SSN) match the information in SSA’s records. By comparing new hires’ information to SSA’s records, SSA will be conducting the same verification routine for the Agency’s own employees as the Agency offers to other employers.

SSA currently verifies the work authorization of every SSA new hire by obtaining proof of U.S. citizenship because an individual must be a U.S. citizen to be authorized to work as a Federal employee. However, it is possible that a new hire, who is a naturalized citizen and who presents valid documentation of such status, may have an SSN that was originally assigned as a nonwork number. In many such cases, the individual inadvertently failed to notify the local Social Security office of the change in U.S. citizenship and work authorization status when he or she became a citizen. This does not preclude the individual from being authorized to work. However, SSA will use the Numident record as part of our suitability determination process to verify that newly hired naturalized citizens have updated their Social Security records in order to obtain a SSN card that is valid for work purposes. If we determine that the individual has a nonwork SSN, we will advise the individual to report to the local Social Security office to report the change in citizenship and work authorization status.

Regarding the wage reporting process, we defer to the Department of the Interior (DOI) as DOI is our payroll provider and we have no direct control over the manner in which they process wage reporting. However, we will ask that they take this recommendation under consideration.

**Recommendation 2**

Make the necessary corrections to payroll, personnel, and/or Numident records for the cases referred during the audit.

## **Comment**

We agree. All but 5 of the referred cases have been resolved and the necessary corrections to payroll, personnel and Numident records have been made. We have contacted the servicing personnel offices for the remaining 5 cases requiring changes to personnel records. We will follow-up with those offices by the end of February 2006.

[In addition to the comments above, SSA provided technical comments which have been addressed, where appropriate, in this report.]



## **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Walter Bayer, Director, Philadelphia Audit Division, (215) 597-4080

Cylinda McCloud-Keal, Audit Manager, (215) 597-0572

### ***Acknowledgments***

In addition to those named above:

Virginia Montelpare, Auditor-in-Charge

Richard Devers, IT Specialist

Annette DeRito, Writer/Editor

For additional copies of this report, please visit our web site at [www.socialsecurity.gov/oig](http://www.socialsecurity.gov/oig) or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-03-05-15087

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# **Overview of the Office of the Inspector General**

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

## **Office of Audit**

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

## **Office of Investigations**

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

## **Office of the Chief Counsel to the Inspector General**

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

## **Office of Resource Management**

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.