
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**EFFECTIVENESS OF
DECENTRALIZED CORRESPONDENCE
SENT TO EMPLOYERS**

September 2006

A-03-06-26096

AUDIT REPORT



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, 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

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: September 25, 2006

Refer To:

To: The Commissioner

From: Inspector General

Subject: Effectiveness of Decentralized Correspondence Sent to Employers (A-03-06-26096)

OBJECTIVE

Our objective was to assess the effectiveness of Decentralized Correspondence (DECOR) sent to employers.

BACKGROUND

As part of the annual wage reporting process, SSA validates the names and Social Security numbers (SSN) on the *Wage and Tax Statement* (Form W-2) against information in its records. Earnings reports containing names and/or SSNs that do not match SSA's records cannot be posted to individuals' earnings records in SSA's Master Earnings File (MEF).¹ Instead, these reported earnings are placed in SSA's Earnings Suspense File (ESF)—an electronic holding file for unmatched earnings reports. As of October 2005,² the ESF had accumulated approximately 255 million wage items for Tax Years (TY) 1937 through 2003, representing about \$520 billion in wages.³

¹ The MEF contains all earnings data reported by employers and self-employed individuals. The data is used to determine eligibility for and calculation of Social Security benefits.

² SSA provides us with ESF data after it has been run through most of the Agency's edit routines. As a result, our ESF numbers do not account for recent additions to the file, which we estimate will be another 9 to 10 million new wage items annually before the edits have been applied.

³ These numbers relate to wages reported by employers and not self-employment income. SSA maintains a separate ESF file for suspended self-employment income.

The purpose of the DECOR process is to contact employees and employers to resolve SSN and/or name discrepancies on wage items stored in the ESF.⁴ Details related to the suspended wage items are placed on the DECOR Mailer File, which is sent to a contractor who prints the DECOR letters and mails them to the appropriate parties.⁵

DECOR letters provide wage earners with information about the reported names/SSNs and wage amounts, and request that the reported information be reviewed, verified or corrected when possible, and returned to SSA.⁶ While SSA sends most DECOR letters to employees,⁷ SSA sends a letter to the employer when an employee's address is incomplete or incorrect (see Appendix B for a copy of the letter sent to employers).⁸ SSA uses the responses to resolve the earnings discrepancies.

At the conclusion of an earlier audit,⁹ SSA management requested that we determine whether the DECOR letters sent to employers resulted in successful reinstatements of wages. For TY 2002, SSA mailed approximately 9.5 million DECOR letters, relating to about \$60.4 billion in wages, to employees and employers. Approximately 7.6 million DECOR letters were sent to employees and another 1.9 million letters were sent to employers. Our analysis of the entire TY 2002 DECOR Mailer File¹⁰ showed there were about 884,000 specific employers in this file (see Appendix C for more on the contents of the DECOR Mailer File).

In addition to the DECOR letters, the Agency sends Educational Correspondence (EDCOR) letters to employers who submit W-2s containing name/SSN information that

⁴ SSA, Program Operations Manual System (POMS), WB 01201.003 - *DECOR Process Overview*.

⁵ Our report does not discuss self-employment income nor the letters sent to individuals with suspended self-employment income. For TY 2002, SSA sent approximately 131,000 letters to individuals with suspended self-employment income.

⁶ SSA, POMS, WB 01201.003 - *DECOR Process Overview*.

⁷ SSA uses employee addresses reported on the W-2 to mail DECOR letters. We reviewed the DECOR employee letters in an earlier audit—see our September 2005 report *Usefulness of Decentralized Correspondence in Focusing Employer-Assistance Activities* (A-03-05-25007).

⁸ SSA uses the employer address related to the Employer Identification Number (EIN) reported on the W-2. 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. The employer address related to the EIN is provided by the IRS.

⁹ SSA Office of the Inspector General (OIG), *Usefulness of Decentralized Correspondence in Focusing Employer-Assistance Activities* (A-03-05-25007), September 2005.

¹⁰ Although the letters were mailed during Calendar Year 2003, the majority of these wage items related to TY 2002. As a result, we will refer to this file as a “TY 2002” file in this report. We reviewed the TY 2002 DECOR mailer file since that was the most recent file available at the time of our review.

does not agree with SSA's records¹¹ and meets specific criteria.¹² EDCOR letters provide employers with up to 500 SSNs but do not provide names. In the letter, SSA requests that employers file corrected W-2s to resolve the suspended items.

RESULTS OF REVIEW

We found that suspended wage items referred to employers were more likely to be reinstated under the DECOR process when compared to those referred directly to employees. We also determined that DECOR letters to employers expanded the population of employers who were notified of name/SSN mismatches among their employees. However, we estimate that approximately 57 percent of employers in the TY 2002 DECOR Mailer File were never informed through SSA's correspondence processes about their wage reporting problems. SSA correspondence with employers regarding name/SSN mismatches in their wage reports could provide employers an opportunity to correct inaccuracies prior to other Federal agencies assessing penalties or taking other enforcement actions.

REINSTATED SUSPENDED WAGE ITEMS

We found that suspended wage items referred to employers under the DECOR process were more likely to be reinstated than those referred directly to the employee. We reviewed 275 sample items related to each process, employer letters and employee letters, and found that about 5.1 percent of the employer letter sample items had been reinstated under the DECOR process. By comparison, approximately 2.9 percent of the employee letter sample items had been reinstated under the DECOR process. We also found that 50 percent of the employer-related reinstatements related to SSNs recorded as all zeroes in SSA's systems.

Employer Letters

We reviewed 275 sample items from among the 1.9 million DECOR letters sent to employers from the TY 2002 DECOR Mailer File. In our review of the ESF and MEF, we found that 14 wage items, 5.1 percent, were reinstated under the DECOR process. These 14 reinstatements related to approximately \$165,000 in reinstated wages (see Figures 1 and 2 for more information on the reinstated items).¹³ If we project these 14 reinstatements to the population of 1.9 million employer letters, we estimate that employer letters from the TY 2002 Mailer File led to the reinstatement of approximately 97,900 wage items related to about \$1.2 billion in wages. See Appendix F for our sample methodology.

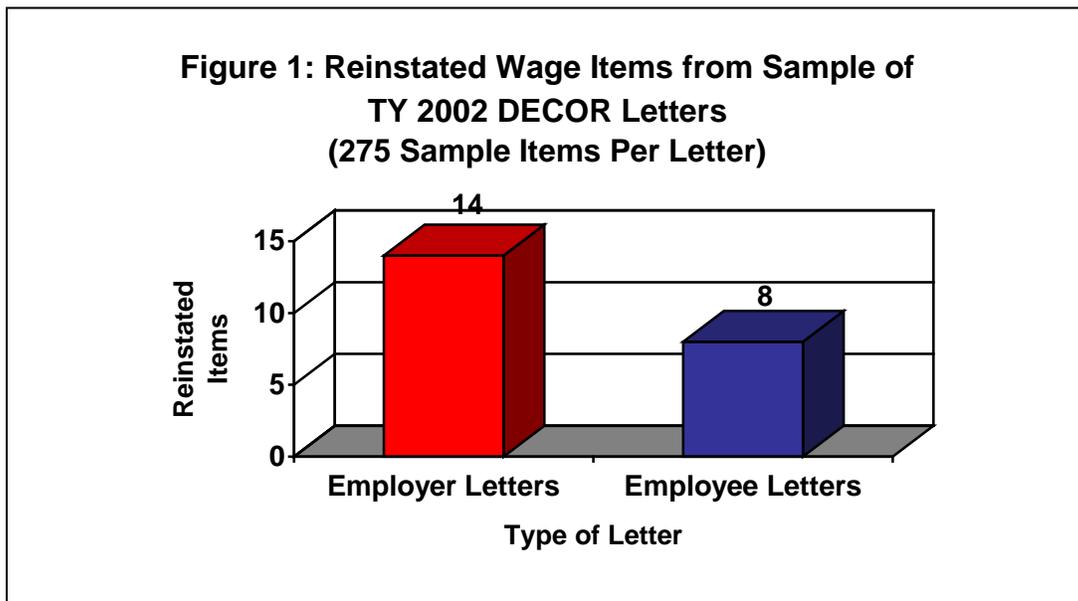
¹¹ SSA, POMS, NL 00901.051 - *Educational Correspondence (EDCOR) (Code V - No-match letter)*.

¹² To receive an EDCOR letter, the employer must have more than 10 suspended items and more than .5 percent of the items in the wage report failing to match SSA's records.

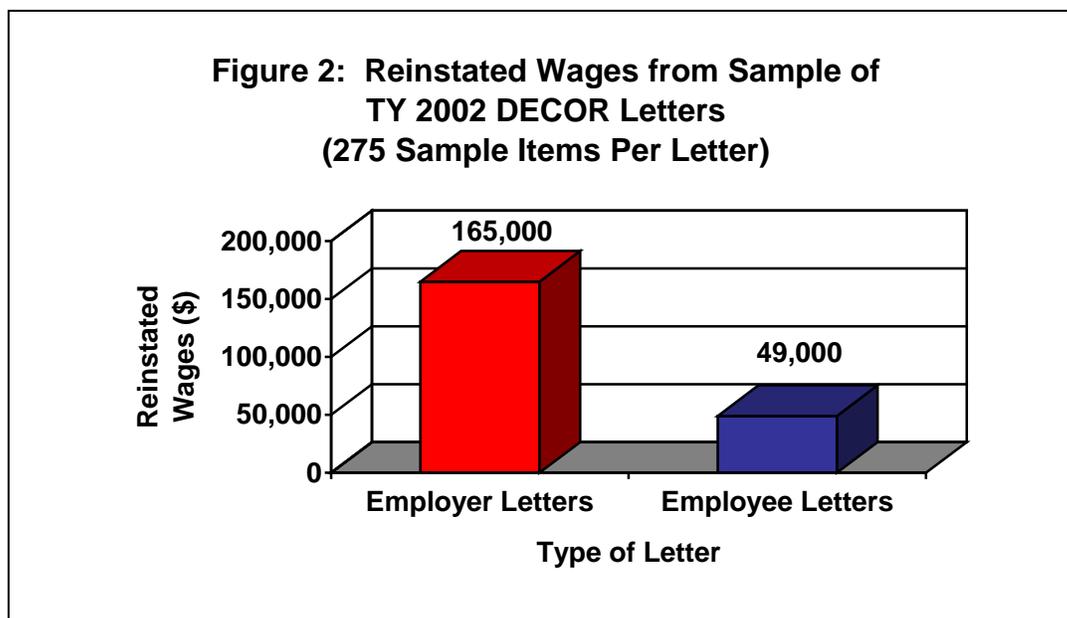
¹³ See Appendices F and G for more details on the sample items.

Employee Letters

We also reviewed 275 sample items from among the 7.6 million DECOR letters sent to employees from the TY 2002 DECOR Mailer File. In our review of the ESF and MEF, we found that 8 wage items, or 2.9 percent, were reinstated under the DECOR process. These 8 reinstatements related to approximately \$49,000 in reinstated wages (see Figures 1 and 2 for more information on the reinstated items).¹⁴ Projecting these 8 reinstatements to the population of 7.6 million employee letters, we estimate that employee letters from the TY 2002 Mailer File led to the reinstatement of approximately 221,300 wage items related to about \$1.3 billion in wages. See Appendix F for our sample methodology.



¹⁴ Ibid.



Reinstatement Trends Among Employer Letters

We reviewed the employer-related reinstated wage items for possible trends and found that 7 of 14 employer letter reinstatements, or 50 percent, were all zero SSNs.¹⁵ The IRS instructs employers who file their wages electronically to use all zeros in the SSN block of the Form W-2 if the employee has applied for an SSN but has not received it at the time he or she was hired.¹⁶ In the case of paper W-2s, the employer can simply enter the words “applied for” in the SSN block. However, SSA's systems convert blanks and alphanumeric fields into zeros, making it hard to differentiate between what the employer reported and what SSA recorded.

We reviewed the actual Form W-2 information for the seven employer-related reinstatements and found that six of the W-2s had blanks in the SSN field and the seventh W-2 had alphanumeric information (but not the “applied for” language). We also determined that all seven individuals associated with these reinstatements were U.S. citizens who had valid SSNs during the TY in question. Hence, the IRS instructions would not have applied, since none of the individuals were awaiting SSNs.

¹⁵ None of the 8 employee-related reinstatements were all zero SSNs.

¹⁶ *2006 Instructions for Forms W-2 and W-3*, IRS, Department of the Treasury. Instructions state “If the employee does not have a card, he or she should apply for one by completing Form SS-5, Application for a Social Security Card. If the employee has applied for a card but the number is not received in time for filing, enter ‘Applied For’ in box d on paper Forms W-2 filed with the SSA. (Enter zeros (000-00-0000) if Form W-2 is filed electronically with the SSA.)”

Instead, it appears the employers simply failed to record available information at the time of filing the W-2s. Moreover, it appears employers were more likely to correct this type of error.¹⁷

EMPLOYER CORRESPONDENCE

We determined that the majority of the DECOR letters sent to the employers in our sample notified them of wage reporting problems they would not have been alerted to under the EDCOR correspondence process. Furthermore, we estimate that 57 percent of the employers in the TY 2002 DECOR Mailer File were never informed of their wage reporting problems through either the DECOR or EDCOR correspondence process. This name/SSN mismatch information could be useful to ensure employers have a chance to correct inaccuracies before other Federal agencies assess penalties or take other enforcement actions.

Educational Correspondence

In addition to the DECOR process for employees, SSA established the EDCOR process to notify employers of wage reporting problems. SSA has specific criteria for determining which employers receive EDCOR letters. For example, in TY 2002 an employer had to have more than 10 wage items in the ESF representing more than .5 percent of the employer's reported wages to receive an EDCOR letter. See Appendix H for more criteria related to these letters.

We reviewed the wage reporting information associated with the 14 employer-related reinstatements in our sample to determine whether the employers would have also received EDCOR letters. We found that of the 14 employers who received DECOR letters, 10 employers (71 percent) would not have received an EDCOR letter from SSA because they did not have a sufficient number of suspended wage items. Hence, without the DECOR process the majority of these employers might have never learned that their submitted employee information was incorrect, nor would they have had an opportunity to correct the information.¹⁸

We also reviewed all employers in the TY 2002 DECOR Mailer File to determine if they qualified for EDCOR letters. Under the TY 2002 criteria, we determined that about 760,300 (86 percent) of the approximately 883,700 employers with wage items in the

¹⁷ Due to the high reinstatement rate among the all zero SSN items, we reviewed the entire TY 2002 DECOR Mailer File to determine the total number of wage items with such characteristics. We found that 305,810 suspended wage items, or about 3 percent of the DECOR Mailer File, contained all zeros (either reported as such or converted to zeros by SSA). We also determined that 198,946 (65 percent) of these all zero items related to employer letters, with the remaining 106,864 (35 percent) related to employee letters. This rate indicates that the all zero SSNs are five times more likely to be reinstated than any other type of name/SSN mismatch problem highlighted in the employer letters.

¹⁸ It is possible that the letter, if sent to the employee, would have led to a reinstatement as well. However, we found that a number of letters sent to other employees of these same employers remained in the ESF.

TY 2002 DECOR Mailer File did not qualify for EDCOR letters since the employers did not have more than 10 suspended wage items.¹⁹ We show the distribution of suspended wage items in the Mailer File in Table 3.

Table 3: Suspended Wage Items by Employer in the TY 2002 DECOR Mailer File

Range of Suspended Items Per Employer	Number of Employers	Percent of Total
1 – 10	760,321	86.0
11 – 100	112,106	12.7
101 – 1,000	10,492	1.2
1,001 – 5,000	725	0.08
5,001 – 15,000	65	0.01
15,001 – 36,000	6	0.00
Totals	883,715	100¹

Note: Numbers may not add to 100 percent due to rounding.

As noted above, some of the 760,321 employers that did not qualify for EDCOR letters did learn about their wage reporting problems since SSA detected problems with the employees' addresses on the W-2 and sent the employers DECOR letters. We found that approximately 253,300 employers not eligible for an EDCOR letter received at least one DECOR letter. However, that still means that about 507,000 employers, or 57 percent of the employers in the TY 2002 DECOR Mailer File, did not receive a DECOR or an EDCOR letter related to their wage reporting problems.²⁰

Sharing ESF Data with Other Federal Agencies

SSA correspondence with employers regarding name/SSN mismatches in their wage reports could provide employers an opportunity to correct inaccuracies prior to other Federal agencies acting on this information. For example, employers submitting wage reports with name/SSN mismatches could be subject to IRS penalties. In addition, the Department of Homeland Security (DHS) is seeking authority to obtain access to SSA's ESF data as part of its worksite enforcement efforts.

The Internal Revenue Code allows the IRS to penalize an employer if it fails to file a complete and accurate wage reporting form.²¹ The penalty is \$50 per incorrect form,

¹⁹ The number of employers failing to meet the criteria could be even higher if we added the .5 percent of reported wages requirement (since EDCOR requires more than 10 suspended wage items *and* more than .5 percent of the items in the wage report failing to match SSA's records), though we did not review this percentage for the 883,700 employers in the TY 2002 DECOR Mailer File.

²⁰ Employers may have other ways to learn of these name/SSN mismatch problems during the wage reporting process. For example, if the employer is filing electronically using SSA's Business Online Service, they can opt to receive additional information on wage reporting errors and inconsistencies.

²¹ 26 U.S.C. § 6721.

with a \$250,000 annual limit.²² In an earlier audit,²³ we noted that SSA provided a list to the IRS of all employers with more than 100 items in the ESF, and sorted this list by the number of items in suspense as well as the percent of reported wages in suspense. Hence, SSA's ESF information may become part of the IRS' enforcement efforts,²⁴ regardless of whether the employer is informed of the reporting inaccuracies.

DHS has also expressed interest in SSA's ESF information.²⁵ At a February 16, 2006 hearing on *Social Security Number High-Risk Issues*, DHS' Assistant Secretary for Policy stated:

DHS sees a clear benefit to receiving portions of the "no-match" data from SSA in assisting with the Department's mission to enforce immigration laws at the workplace. As I already stated, the SSA is using a variety of innovative and sophisticated methods to identify the SSNs to which the unreconciled earning reports should be attributed before sending out the "no-match" letters with respect to the remaining reports. The database of "no-match" letters, therefore, is already targeted to those unattributed earning reports that cannot be explained by, say, a simple misspelling in the employee's name or a typographical error in his SSN. These true "no-match" letters could aid an U.S. Immigration and Customs Enforcement investigation of an employer violating immigration laws.²⁶

²² For businesses with average receipts of not more than \$5 million, the limit is \$100,000 annually.

²³ SSA Office of the Inspector General, *Employers with the Most Suspended Wage Items in the 5-Year Period 1997 through 2001* (A-03-03-13048), October 2004.

²⁴ However, according to the Commissioner of the IRS, the likelihood of specific investigations leading to penalties for name/SSN mismatches may be small. At a July 26, 2006 hearing on *Impacts of Border Security and Immigration on Ways and Means Programs* before the House Committee on Ways and Means, Commissioner Mark Everson stated "From a tax compliance perspective, violations of these provisions are generally identified as part of an overall employment tax examination. We would not ordinarily initiate an examination against an employer solely on the basis that he/she had reported a high number of mismatches. This is a function of both resources and the fact that the employer can easily demonstrate that he/she has performed the due diligence required under the law."

²⁵ Any data sharing between SSA and DHS regarding earnings-related information would need to accommodate Section 6103 of the Internal Revenue Code (26 U.S.C. § 6103), which places restrictions on the disclosure of taxpayer information.

²⁶ Statement of The Honorable Stewart A. Baker, Assistant Secretary for Policy, U.S. Department of Homeland Security, *Testimony Before the Subcommittee on Oversight of the House Committee on Ways and Means*, February 16, 2006. In the past, the term "no-match" letters has applied to SSA correspondence with employees and employers to correct items in the ESF, including DECOR and EDCOR letters.

DHS issued a Federal Register notice in June 2006, titled *Safe-Harbor Procedures for Employers Who Receive a No-Match Letter*,²⁷ which describes employers' current legal obligations when they receive no-match letters from SSA and/or DHS.²⁸ Employers are expected to take reasonable steps to resolve the problem identified in the letter(s) or they may be held responsible for violating provisions of the Immigration and Naturalization Act. While the current proposals are limited to employers who actually receive such letters from SSA, and we have noted that about 57 percent of employers are not receiving such letters from SSA, continued interest in the contents of the ESF could lead to additional scrutiny of employee wage matching problems associated with employers who were not notified of the problems. In fact, SSA's DECOR letters to employers may now cause these employers to be subject to potential scrutiny under the proposed DHS requirements.

Finally, employers may want to learn of any name/SSN mismatches to ensure the integrity of their underlying employee information. While SSA offers a number of useful employee verification services to assist employers with problems,²⁹ these employers need to first learn of their wage reporting problems if they are expected to understand the benefit of such services. Moreover, the lack of SSA feedback on wage reporting errors not only prevents employers from correcting the employee data sent to SSA, but it may also lead to employers using incorrect names/SSNs on other State and Federal documents, such as reports to the Office of Child Support Enforcement (OCSE).³⁰

CONCLUSION AND RECOMMENDATIONS

Our review indicates that DECOR letters to employers are a valuable part of the Agency's reinstatement processes. In fact, suspended wage items referred to employers are more likely to be reinstated under the DECOR process than letters to employees. Moreover, DECOR letters may be the only occasion an employer has to learn of employee name/SSN problems since most employers in the TY 2002 DECOR Mailer File never received an EDCOR letter. Providing this information to employers assists SSA in reducing the size of the ESF, while providing the employer a chance to correct problems before SSA or other Federal agencies take additional actions.

²⁷ Federal Register Vol. 71, No. 114 (71 FR 34281). DHS access to SSA no-match data is also proposed in Senate Bill 2611, Comprehensive Immigration Reform Act of 2006, 109th CONGRESS, 2d Session, S. 2611, § 301(e).

²⁸ DHS sends an employer a "no-match" letter when the immigration status or employment authorization documentation presented or referenced by the employee in completing the DHS' *Employment Eligibility Verification* form (Form I-9) was not assigned to the employee according to DHS records.

²⁹ For example, SSA established the Social Security Number Verification Service, rolled-out nationwide in June 2005, as a free on-line service employers can use to verify new and existing employees' information, including name, SSN, date of birth, and gender.

³⁰ OCSE uses the employee information to locate non-custodial parents and their income and assets. Often, the information on the IRS' *Employee's Withholding Allowance Certificate* (Form W-4) is the source document used to report the employee information to the State. The W-4 is also used by employers to prepare the W-2 submitted to SSA.

For these reasons, we recommend SSA continue to send DECOR letters to employers as part of its overall DECOR correspondence process.

AGENCY COMMENTS

SSA concurred with our recommendation. The Agency's comments are included in Appendix I.

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

Patrick P. O'Carroll, Jr.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Decentralized Correspondence Letter Sent to Employers

[APPENDIX C](#) – Decentralized Correspondence Flowchart

[APPENDIX D](#) – Contents of the Decentralized Correspondence Mailer File

[APPENDIX E](#) – Scope and Methodology

[APPENDIX F](#) – Sample Methodology

[APPENDIX G](#) – Reinstated Wage Items

[APPENDIX H](#) – Educational Correspondence

[APPENDIX I](#) – Agency Comments

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

Acronyms

DECOR	Decentralized Correspondence
DHS	Department of Homeland Security
EDCOR	Educational Correspondence
EIN	Employer Identification Number
ESF	Earnings Suspense File
IRS	Internal Revenue Service
MEF	Master Earnings File
NCC	National Computer Center
OCSE	Office of Child Support Enforcement
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SSA	Social Security Administration
SSN	Social Security number
TY	Tax Year
Forms	
I-9	<i>Employee Eligibility Verification</i>
W-2	<i>Wage and Tax Statement</i>
W-4	<i>Employee's Withholding Allowance Certificate</i>

Decentralized Correspondence Letter Sent to Employers

4002-04

Form Approved
OMB No. 0960-0508

Social Security Administration Retirement, Survivors, and Disability Insurance Request for Employer Information

Social Security Administration
Data Operations Center
P.O. Box 39
Wilkes-Barre, PA 18767-0039

Date:

Sequence Number:

Employer Number:

We are writing to you about your Wage and Tax Statement (W-2) or Corrected Wage and Tax Statement (W-2c) for the employee shown below. Please complete the information on the back of this letter and return it to us promptly. We cannot put these earnings on the employee's Social Security record until the name and Social Security number you reported agree with our records.

Employee's Name:
Social Security Number:
Reported Earnings:
Tax Year:

The reasons the reported information does not agree with our records may include, but are not limited to:

- Typographical errors
- Incomplete or blank name reported
- Incomplete or blank Social Security number (SSN) reported
- Name changes

This letter does not imply that you or your employee intentionally provided incorrect information about the employee's name or SSN. It is not a basis, in and of itself, for you to take any adverse action against the employee, such as laying off, suspending, firing, or discriminating against the individual. Any employer that uses the information in this letter to justify taking adverse action against an employee may violate state or Federal law and be subject to legal consequences. Moreover, this letter makes no statement about your employee's immigration status.

For Spanish-speaking individuals: Esta carta no implica que usted ni su empleador intencionalmente proveyeron información incorrecta sobre el nombre o número de Seguro Social del empleado. El hecho de que usted haya recibido esta carta no constituye una razón, de por sí, para que usted tome alguna acción adversa contra el empleado, tal como suspenderlo, despedirlo o discriminar contra el individuo. Cualquier empleador que use la información en esta carta para justificar una acción adversa contra un empleado puede encontrarse en violación de la ley estatal o federal, y estar sujeto a enfrentar consecuencias legales. Además, esta carta no hace ninguna declaración sobre el estado de inmigración de su empleado. Esta carta pide información sobre las ganancias que usted informó por su empleado. Si usted necesita una traducción de esta carta, por favor llámenos al número de teléfono gratis, 1-800-772-1213, de 7 a.m. a 7 p.m. de lunes a viernes.

Please See Reverse

4002-04

DO NOT RETURN THIS PAGE

POINTERS FOR CORRECT REPORTING

- 1) The Internal Revenue Code requires an employer to include each employee's Social Security number when filing returns, such as the W-2 Wage and Tax Statements. The employer identification number must also appear on such returns.
- 2) Ask for the employee's Social Security number and explain that the law requires the employee to give the number although (s)he may be ineligible for benefits.
- 3) Include the middle initial if shown on the employee's Social Security card.
Format: John C. Smith

THE PRIVACY ACT

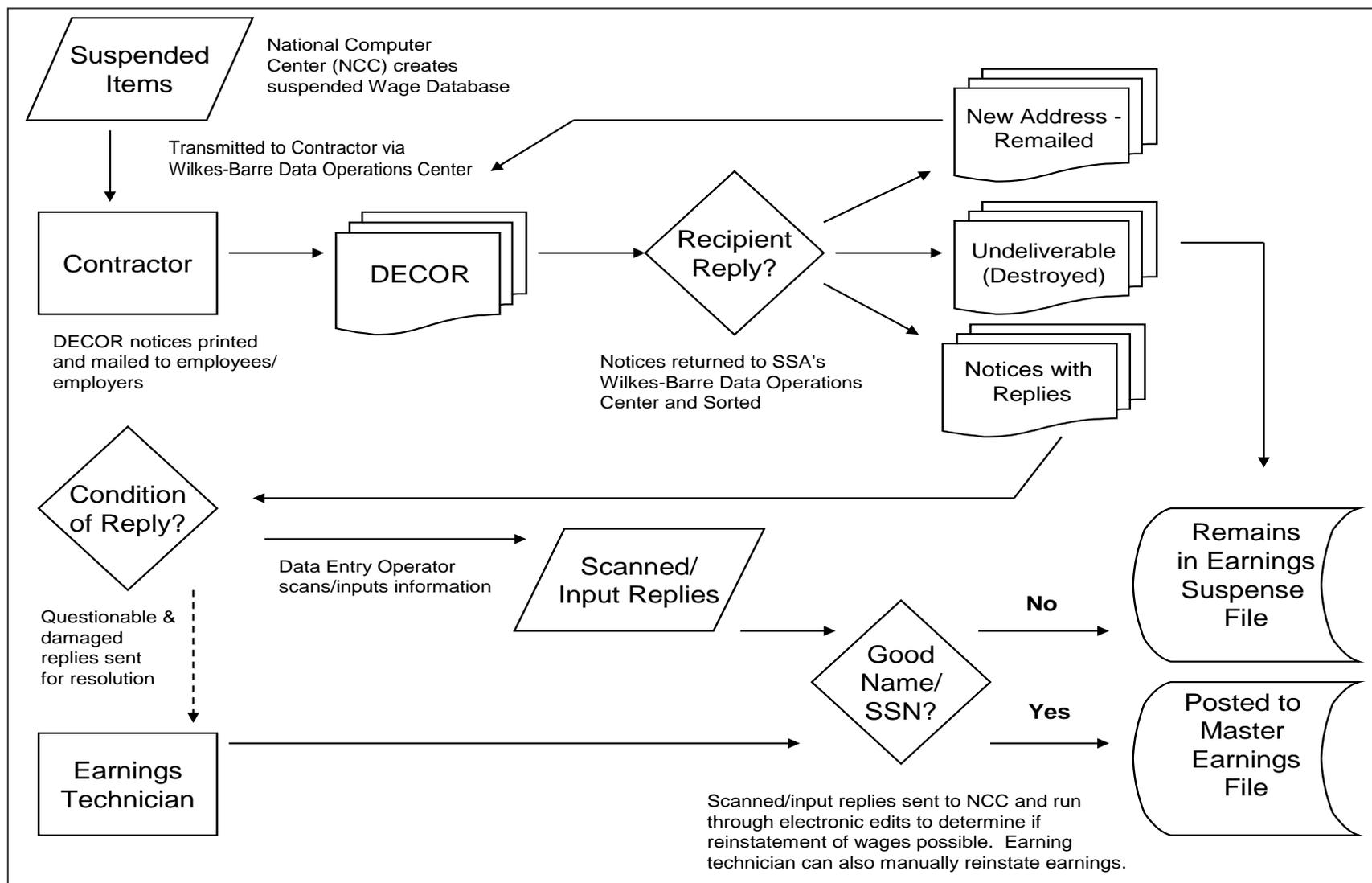
Section 205(a) of the Social Security Act allows us to ask for the information on this letter. The information you give us will be used to give the employee credit for the correct amount of wages. You do not have to complete this letter. However, if you do not, we can not give the employee credit for the correct amount of wages. We may give this information to the Internal Revenue Service for tax administration purposes or to the Department of Justice for investigating and prosecuting violations of the Social Security Act.

We may also use the information you give us when we match records by computer. Matching programs compare our records with those of other Federal, State or local government agencies. Many agencies may use matching programs to find or prove that a person qualifies for benefits paid by the Federal government. The law allows us to do this even if you do not agree to it. Explanations about these and other reasons why information you provide us may be used or given out are available in Social Security offices. If you want to learn more about this, contact any Social Security office.

PAPERWORK REDUCTION ACT STATEMENT

This information collection meets the clearance requirements of 44 U.S.C. section 3507, as amended by section 2 of the **Paperwork Reduction Act of 1995**. You are not required to answer these questions unless we display a valid Office of Management and Budget control number. We estimate that it will take you about 10 minutes to read the instructions, gather the necessary facts, and answer the questions.

Decentralized Correspondence Flowchart



Contents of the Decentralized Correspondence Mailer File

The Tax Year (TY) 2002 Decentralized Correspondence (DECOR) Mailer File contained data for approximately 7.6 million letters sent to employees and another 1.9 million letters sent to employers (see Table D-1). Furthermore, our analysis of the entire TY 2002 DECOR file showed there were about 884,000 specific employers in the file.

Table D-1: Breakout of the Tax Year 2002 DECOR Mailer File

<i>File Contents</i>	<i>Wage Items</i>	<i>Wages</i>	<i>Percent of Items Per File</i>
Employee File	7.6 million	\$49.8 billion	80
Employer File	1.9 million	\$10.6 billion	20
Total	9.5 million	\$60.4 billion	100

We analyzed the 9.5 million wage items contained in the TY 2002 DECOR Mailer File and determined that approximately 9 million (94 percent) of these wage items were related to TY 2002, while the remainder related to prior TYs. For example, approximately 264,000 wage items related to TY 2001 (see Table D-2).

Table D-2: Reported Tax Years in the Entire DECOR Mailer File

<i>Tax Year</i>	<i>Number of Wage Items</i>	<i>Volume of Wages</i>
2002	8,992,179	\$57.6 billion
2001	264,477	\$1.4 billion
2000	130,689	\$.8 billion
1978-1999	142,266	\$.6 billion
Blank	278	\$.004 billion
Total	9,529,889	\$60.4 billion

Note: Blank indicates that there was no tax year associated with the wage items.

In our September 2005 audit, *Usefulness of Decentralized Correspondence in Focusing Employer-Assistance Activities (A-03-05-25007)*, we reviewed the addresses associated with the letters sent to employers and identified the States with employees having the highest number of employee letters in the DECOR Mailer File.¹ The top

¹ This analysis was based on DECOR letters sent to employees in the 50 States plus the District of Columbia; or about 80 percent of all suspended wage items. We reviewed the DECOR employee file since it contained the employees' addresses. SSA will send a letter to an employer when it lacks a valid address for the employee. In our analysis of the 20 percent of DECOR letters sent to employer addresses we found that the same 10 States were predominant.

10 States accounted for 72 percent of the TY 2002 DECOR letters sent to employees even though they represented about 48 percent of the national workforce as shown in Table D-3.

Table D-3: Comparison of the Top 10 States Ranking of Suspended Wage Items and National Workforce
(Based on a Review of the Tax Year 2002 DECOR Employee File)

States ⁽¹⁾	Ranking in Terms of Wage Items	Percent of DECOR Letters	Ranking in Terms of State Workforce	Percent of the National Workforce ⁽²⁾
California	1	29.7	1	11.0
Texas	2	9.6	2	7.0
Florida	3	6.8	4	5.7
Illinois	4	6.2	6	4.3
New Jersey	5	4.0	9	3.1
New York	6	3.4	3	6.6
Arizona	7	3.3	21	1.8
North Carolina	8	3.2	10	3.0
Washington	9	3.2	15	2.2
Georgia	10	3.0	11	3.0
Totals		72.4%		47.7%

Notes: (1) Our analysis does not include DECOR letters sent to Guam, Puerto Rico, American Samoa, Virgin Islands, Marshall Islands, and overseas addresses related to the Armed Forces. A total of 4,397 letters related to these locations.

(2) State workforce statistics were taken from *State Statistics*, Office of Policy, SSA, December 2003.

Scope and Methodology

To meet our objective, we performed the following steps.

- Reviewed prior Social Security Administration (SSA) Office of the Inspector General reports related to the Earnings Suspense File (ESF) and wage reporting problems.
- Reviewed applicable Federal laws and regulations, as well as SSA's policies and procedures for maintaining individual earnings records and contacting employers with suspended wages.
- Obtained a copy of the Decentralized Correspondence (DECOR) Mailer File from SSA related to wage reports submitted during the Tax Year (TY) 2002 reporting period.¹ This file contained 9,529,889 wage items, with a corresponding value of \$60.4 billion.²
- Selected two random samples from the TY 2002 DECOR Mailer File — 275 sample items from the 1,922,851 letters sent to employers and another 275 sample items from the 7,607,038 letters sent to employees. We determined whether the related wage items had been reinstated to the Master Earnings File or were still in the ESF. We also analyzed the two populations, and associated reinstatements, for relevant trends and characteristics. Our sample methodology and projections can be found in Appendix F.
- Obtained copies of *Wage and Tax Statements* (Form W-2) from SSA's Office of Central Operations to determine whether an employee's address was incomplete, necessitating the mailing of a letter to the employer's address. We also reviewed other W-2s, including ESF items with all zeros in the SSN field, to determine what was actually reported by the employer.
- Met with SSA staff to share our results and obtain explanations for issues identified during our audit.

Our audit did not include an evaluation of SSA's internal controls over the wage reporting process. The purpose of our review was to review reinstatements related to wages accumulated in the ESF. We did not focus our efforts on the collection of wage data, nor did we attempt to establish the reliability or accuracy of such data.

¹ Although the majority of the DECOR file related to TY 2002 wages, some wages related to earlier TYs were also reported to SSA during the same period and placed in this file. However, for the purposes of this report, we are referring to the DECOR file as a TY 2002 file.

² Earnings items identified as self-employment income for TY 2002 were not included in this population since self-employment data were contained in a separate file.

In prior audits, we reviewed the completeness and accuracy of the ESF postings, and tested the accuracy of ESF data reinstated to earnings records.

Our work was conducted at the Mid-Atlantic Processing Service Center in Philadelphia, Pennsylvania and at SSA Headquarters in Baltimore, Maryland. Our work was conducted between May and June 2006. The SSA entities responsible for the maintenance and monitoring of the ESF, as well as the mailing of the DECOR letters, are the Employer Wage Report and Relations Staff in the Office of the Deputy Commissioner for Budget, Finance and Management, the Office of Earnings, Enumeration and Administrative Systems within the Office of the Deputy Commissioner for Systems, and the Office of Central Operations within the Office of the Deputy Commissioner of Operations. Our review was conducted in accordance with generally accepted government auditing standards.

Sample Methodology

To determine the number of reinstatements related to each type of Decentralized Correspondence (DECOR) letter among our population of 9,529,889 items in the Tax Year 2002 DECOR Mailer File, we selected 275 random items from each of the two populations: 1,922,851 employer letters and 7,607,038 employee letters. We determined the number of reinstatements to earners' records found among each sample, using information within the Social Security Administration's systems to ensure the reinstatements were associated with the DECOR correspondence.

In terms of the employer letters, we determined that 14 reinstatements were associated with approximately \$165,000 in reinstated wages. Projecting these reinstatements to the population of 1,922,851 employer letters, we estimate these letters led to the reinstatement of an estimated 97,900 wage items related to about \$1.2 billion in wages.

In terms of the employee letters, we determined that 8 reinstatements were associated with approximately \$49,000 in reinstated wages. Projecting these reinstatements to the population of 7,607,038 employee letters, we estimate these letters led to the reinstatement of an estimated 221,300 wage items related to about \$1.3 billion in wages.

Sample Results and Projections – Employer Letters	
Population size	1,922,851
Sample size	275
Attribute Projection	
Sample cases – number of reinstated wage items associated with DECOR letters sent to employers	14
Projection – number of reinstated wage items associated with DECOR letters sent to employers in our population	97,891
Projection lower limit	59,681
Projection upper limit	150,832
Dollar Projection	
Sample cases – reinstated wages associated with DECOR letters sent to employers	\$164,575
Projection – reinstated wages associated with DECOR letters sent to employers in our population	\$1,150,740,529
Projection lower limit	\$43,302,741
Projection upper limit	\$2,258,178,318

Sample Results and Projections – Employee Letters	
Population size	7,607,038
Sample size	275
Attribute Projection	
Sample cases – number of reinstated wage items associated with DECOR letters sent to employees	8
Projection – number of reinstated wage items associated with DECOR letters sent to employees in our population	221,296
Projection lower limit	110,730
Projection upper limit	394,622
Dollar Projection	
Sample cases – reinstated wages associated with DECOR letters sent to employees	\$48,592
Projection – reinstated wages associated with DECOR letters sent to employees in our population	\$1,344,149,507
Projection lower limit	\$313,630,557
Projection upper limit	\$2,374,668,457

Reinstated Wage Items

To determine the number of reinstatements related to each type of Decentralized Correspondence (DECOR) letter among our population of 9,529,889 items in the Tax Year (TY) 2002 DECOR Mailer File, we selected 275 random items from each of the two populations: 1,922,851 employer letters and 7,607,038 employee letters. Among the employer letters, we found that 14 wage items (5.1 percent) were reinstated under the DECOR process. Another 4 wage items were reinstated under other processes (see Table G-1).

**Table G-1: Reinstated Employer Letter Sample Items
(TY 2002 DECOR Mailer File)**

Reinstatement Process	Number of Items Reinstated	Percent of Reinstatements
DECOR	14	77.8
SWEEP ¹	3	16.7
GAP Process ²	1	5.6
Total	18	100³

Note 1: SWEEP is an electronic operation that periodically uses the Social Security Administration's (SSA) latest system enhancements and validation rules, including more than 20 routine edits used on incoming wages, to remove items from the Earnings Suspense File (ESF) and reinstate them to wage earners' Master Earnings File records.

Note 2: GAP Process relates to a relatively new edit developed by SSA's Office of Quality Performance which, among other things, looks for gaps in an individual's earnings history to determine if a suspended earnings item may relate to that individual.

Note 3: May not add to 100 percent due to rounding.

Among the employee letters, we found 8 wage items (2.9 percent) were reinstated under the DECOR process. Another 13 wage items were reinstated under other processes (see Table G-2).

**Table G-2: Reinstated Employee Letter Sample Items
(TY 2002 DECOR Mailer File)**

Reinstatement Process	Number of Items Reinstated	Percent of Reinstatements
IRS Reinstates ¹	11	52.4
DECOR	8	38.1
Item Correction ²	1	4.8
SWEEP	1	4.8
Total	21	100³

Note 1: 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.

Note 2: This paper-less process allows SSA staff to correct the earnings record manually. SSA employees can add, change, move, or delete an individual's earnings overnight via on-line interactive screens.

Note 3: May not add to 100 percent due to rounding.

Tables G-3 and G-4 provide additional details on the wage reports reinstated under the DECOR process. We found that the average wage for the employer-related letters was \$11,755, with a median wage of \$1,201. The average wage for the employee-related letters was \$6,074, with a median wage of \$5,007.

Table G-3: Characteristics of Wage Items Reinstated Under an Employer Letters Via the DECOR Process

Case Number	Tax Year of Earnings	Type of Mismatch/Social Security number (SSN) Issue	Reinstated Wages	Age at Time of Earnings	Year Issued an SSN by SSA	Earners Place of Birth
1	1999	BLANK ¹	\$ 364.50	22	1979	United States
2	2000	ALPHANUMERIC ¹	2.24	39	1973	United States
3	2002	NAME/SSN	33,836.49	44	1987	Mexico
4	1993	NAME/SSN	1,554.66	50	1973	United States
5	2002	NAME/SSN	4,008.75	32	1982	United States
6	2002	NAME/SSN	28.56	25	1987	United States
7	2002	BLANK ¹	822.69	25	1987	United States
8	2002	BLANK ¹	505.00	30	1984	United States
9	2002	NAME/SSN	84,900.00	54	1963	United States
10	2002	BLANK ¹	847.88	18	1989	United States
11	2002	BLANK ¹	663.68	35	1970	United States
12	2002	BLANK ¹	2,735.63	48	1969	United States
13	2002	NAME/SSN	4,785.10	40	1978	United States
14	2002	NAME/SSN	29,520.05	33	1983	Philippines
Total			\$164,575.23			

Note 1: “Blank” and “Alphanumeric” mismatches appeared in the ESF File as 000-00-0000 after SSA had converted the incoming information. Our review of the *Wage and Tax Statements* (Form W-2) determined the actual content.

Table G-4: Characteristics of Wage Items Reinstated Under Employee Letters Via the DECOR Process

Case Number	Tax Year of Earnings	Type of Mismatch/SSN Issue	Reinstated Wages	Age at Time of Earnings	Year Issued an SSN by SSA	Earners' Place of Birth
1	2001	NAME/SSN	\$ 2,192.31	21	1986	United States
2	2002	NAME/SSN	698.42	49	1969	United States
3	2002	NAME/SSN	7,923.73	55	1965	United States
4	2002	NAME/SSN	690.71	36	1979	United States
5	2002	NAME/SSN	6,708.71	35	2004 ¹	Mexico
6	2002	NAME/SSN	9,978.50	25	1979	United States
7	2002	NAME/SSN	17,093.82	32	2004 ¹	Mexico
8	2002	NAME/SSN	3,305.79	17	1990	United States
Total			\$48,591.99			

Note 1: In two cases individuals received their SSNs after performing work. We reported on earnings reported before the worker was enumerated in our August 2005 audit *Reported Earnings Prior to the Issuance of a Social Security Number (A-03-04-14037)*.

Educational Correspondence

In addition to Decentralized Correspondence (DECOR) letters, the Social Security Administration (SSA) also sends educational correspondence (EDCOR) to employers who submit wage items containing name and/or Social Security number (SSN) information that does not agree with SSA's records. EDCOR letters list up to 500 SSNs but do not provide the employees' names. SSA requests that employers file corrected *Wage and Tax Statements* (Form W-2) to correct the error(s). As a result, employers may receive both DECOR and EDCOR letters from SSA. Criteria for sending these letters are shown in Table H-1.

Table H-1: SSA's Criteria for Sending EDCOR Letters

<p>2003 and later years <i>(Tax Year 2002 and later)</i></p>	Letters were sent to employers who submitted a wage report containing more than 10 W-2s that SSA could not process and the mismatched forms represented more than .5 percent of the total W-2s reported.
<p>2002 <i>(Tax Year 2001)</i></p>	Letters were sent to employers who submitted a wage report where the name and/or SSN on at least one W-2 did not agree with SSA's records. (The decision to send a letter to every employer with just one "no match" was made in May 2000.)
<p>2001 and prior years <i>(Tax Year 2000 and prior)</i></p>	Letters were sent to employers who submitted a wage report containing more than 10 W-2s that SSA could not process, and the mismatched forms represented more than 10 percent of the total W-2s reported.

Under the above scenario, the following situations could have occurred in TY 2002:

Example A: Employer has 10 employees and all have incorrect name/SSN combinations – no EDCOR letter to the employer.

Reason: Employer has only 10 suspended wage items, even though 100 percent of reported wages failed to match SSA's records.

Example B: Employer has 20,000 employees and 100 employees have incorrect name/SSN combinations – no EDCOR letter to the employer.

Reason: While employer has more than 10 suspended wage items, these items did not represent more than .5 percent of the reported wages.

Example C: Employer has 20,000 employees and 120 employees have incorrect name/SSN combinations – EDCOR letter sent to the employer.

Reason: Employer has more than 10 suspended items, and more than .5 percent of the reported wages failed to match SSA's records.

PRIOR STUDIES

SSA has modified its ESF correspondence processes over the years, including DECOR and EDCOR letters. Some of these changes were documented in a December 1999 study¹ issued by the Annual Wage Reporting Error Notices Workgroup. The charter of the group was to review error letters for completeness, efficiency, and effectiveness. While the report made 27 recommendations, some were specific to DECOR and EDCOR, including:

- Send a letter to all 850,000 employers who contribute at least 1 item annually to the SSA Suspense File.² The report noted that SSA did not send letters to about 800,000 employers who contributed items to the ESF, and “employers were vocal about not being able to fix what they did not know about.”³
- Send DECOR to employees only, and do so after employers have had 90 days to respond to the EDCOR letter.

In our July 2002 audit, *Effectiveness of the Social Security Administration's Decentralized Correspondence Process*,⁴ we noted that SSA could further improve the effectiveness of the DECOR process by minimizing duplication with other validation techniques and following up with the earners on unresolved DECOR responses. To improve the effectiveness of the DECOR process, we recommended SSA remove employer letters from the DECOR process once the EDCOR process has been fully implemented so employers are informed of all wage items with name/SSN mismatches. As noted above, SSA increased the number of EDCOR letters during Calendar Year 2002 and then modified its policy the following year. As a result, the current policy of sending DECOR letters to employers may lead to some overlap, but it also provides letters to some employers who would never receive letter from SSA under the EDCOR process.

¹ Letter from Joe Duey, Assistant Associate Commissioner for Earnings Operations to Norm Goldstein, Senior Financial Executive, December 30, 1999.

² As Table G-1 indicates, SSA sent EDCOR letters to all employers with at least one suspended wage item in Calendar Year 2002 (mostly for wage items related to Tax Year 2001).

³ The report also noted “as technology permits, provide an electronic means for letter delivery to employers, since this would be key to accomplishing this goal for large listings.” At the time of the report, EDCOR letters included a list of up to 250 suspended wage items. SSA's current letter has been expanded to include up to 500 suspended wage items.

⁴ SSA Office of the Inspector General, *Effectiveness of the Social Security Administration's Decentralized Correspondence Process* (A-03-01-11034), July 2002.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

0609-0011243

Date: September 14, 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, "Effectiveness of Decentralized Correspondence Sent to Employers" (A-03-06-26096)--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, “EFFECTIVENESS OF DECENTRALIZED CORRESPONDENCE SENT TO EMPLOYERS” (A-03-06-26096)

Thank you for the opportunity to review and provide comments on this draft report.

Recommendation 1

Continue to send DECOR letters to employers as part of its overall DECOR process.

Comment

We agree. We will continue to send DECOR letters to employers, as accurate earnings information is necessary to ensure that SSA credits the correct earnings to the correct individual’s record. Providing this information to employers also assists the Agency in its efforts to reduce the size of the Earnings Suspense File.

[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:

Richard Devers, IT Specialist

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