OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

Audit Report

Removal of Self-employment Income and the Impact on Social Security Benefits

A-03-16-50102 | February 2018

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: February 22, 2018 **Refer To:**

To: The Commissioner

From: Acting Inspector General

Subject: Removal of Self-employment Income and the Impact on Social Security Benefits (A-03-16-50102)

The attached final report presents the results of the Office of Audit's review. The objective was to determine whether disclaimed or deleted self-employment income allowed individuals to become eligible for Social Security benefits or increased benefit payments.

If you wish to discuss the final report, please call me or have your staff contact Rona Lawson, Assistant Inspector General for Audit, 410-965-9700.

Gale Stallworth Stone

Gale Stallworth Stone

Attachment

cc:
General Counsel

Removal of Self-employment Income and the Impact on Social Security Benefits
A-03-16-50102

February 2018 **Office of Audit Report Summary**

Objective

To determine whether disclaimed or deleted self-employment income (SEI) allowed individuals to become eligible for Social Security benefits or increased benefit payments.

Background

The Social Security Administration (SSA) provides benefits under Titles II and XVI of the *Social Security Act*. Under Title II, individuals (or qualifying survivors) may become entitled under the Old-Age, Survivors and Disability Insurance programs based on the individual's taxable earnings during his/her lifetime. Under Title XVI, eligibility is based on income and resources. Income is counted each month and, generally, the more income a recipient has, the lower his/her payment will be.

In administering these programs, SSA is responsible for maintaining accurate individual earnings records, including wages and SEI. Self-employed individuals report SEI to the Internal Revenue Service (IRS) on a *Profit or Loss from Business* (Schedule C) or *Self Employment Tax* (Schedule SE) if net earnings are $400 or more. The IRS sends SEI information to SSA, where the Agency records it on the Master Earnings File, which is used to determine a person's eligibility for benefits as well as calculate the benefit amounts.

Findings

Of the 150 beneficiaries in our sample, 38 may have been paid about $314,000 in improper benefit payments because of SEI that was disclaimed or removed from their earnings records. This included about $22,000 in improper payments for five beneficiaries. In addition, we identified 21 beneficiaries who had about $433,000 in questionable SEI that remained posted to their earnings records because SSA did not remove SEI from earnings records unless individuals disclaimed the income.

Of the 150 sample cases, SSA removed the SEI from the earnings records for 139 for scrambled SEI, Social Security number misuse, reporting errors, and fraudulent Earned Income Tax Credits. For the remaining 11 cases, the beneficiaries disclaimed the SEI for questionable reasons.

Additionally, SSA did not update its Numident to reflect the citizenship status of 50 beneficiaries who were lawfully present in the United States. Although the beneficiaries provided SSA evidence of their citizenship and lawful presence when they filed a claim for benefits, staff did not update SSA's Numident. This caused inconsistencies in SSA records for these beneficiaries.

Recommendations

We recommended that SSA:

- Review and take appropriate actions for five beneficiaries who had improper payments that we identified during our review.
- Attempt to contact the 50 beneficiaries and obtain current documentation required to update the citizenship and lawful presence on the Numident.
- Remind staff to update the Numident when individuals provide evidence of citizenship and lawful presence as part of their benefit claims.

SSA agreed with our recommendations.

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Abbreviations

AERO	Automatic Earnings Reappraisal Operation
CDR	Continuing Disability Review
EITC	Earned Income Tax Credit
IRS	Internal Revenue Service
MBR	Master Beneficiary Record
MEF	Master Earnings File
OASDI	Old-Age, Survivors and Disability Insurance
OIG	Office of the Inspector General
SEI	Self-employment Income
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	Social Security Number
SSR	Supplemental Security Record
TY	Tax Year

OBJECTIVE

Our objective was to determine whether disclaimed or deleted self-employment income (SEI) allowed individuals to become eligible for Social Security benefits or increased benefit payments.

BACKGROUND

The Social Security Administration (SSA) provides benefits under Titles II and XVI of the *Social Security Act*.[1] Under Title II, an individual (or qualifying survivor) may become entitled to benefits under the Old-Age, Survivors and Disability Insurance (OASDI) programs based on the individual's taxable earnings during his/her lifetime. In addition, to qualify for Disability Insurance benefits, a worker must have a physical or mental impairment that prevents him/her from performing substantial gainful activity/work with earnings above a certain monthly amount. Under Title XVI, eligibility for Supplemental Security Income (SSI) is based on income and resources. Income is counted each month and, generally, the more income a recipient has, the lower his/her benefit payment will be. An individual who has too much income in a particular month is not eligible for an SSI payment in that month.[2] Income includes wages and net earnings from SEI.[3] Disabled or aged SSI recipients must report any information that may affect their eligibility or payment amount.

SSA is responsible for maintaining accurate individual earnings records, including wages and SEI. Self-employed individuals report SEI to the Internal Revenue Service (IRS) on a *Profit or Loss from Business* (Schedule C) or *Self-Employment Tax* (Schedule SE) if the net earnings are $400 or more.[4] The IRS sends SEI information to SSA, where it is recorded on the Master Earnings File (MEF). SSA uses individuals' earnings records as well as information obtained from self-reporting to determine their eligibility for, and the amount of, retirement, survivors, disability, and health insurance benefits as well as SSI payments.[5]

SSA may find reporting errors or fraudulent SEI while it develops continuing disability reviews (CDR) or SSI redeterminations or alerts. An individual may disclaim earnings if he/she did not provide services or receive income. SSA generally accepts an individual's signed statement disclaiming the earnings and either deletes the earnings from the MEF or transfers them to its

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[1] *Social Security Act*, 42 U.S.C. §§ 401-402, 1381-1382.

[2] *SSA, POMS, SI-Supplemental Security Income,* ch.SI 008, subch. SI 00810.001 (September 26, 2011).

[3] *SSA, POMS, SI*, ch.SI 008, subch. SI 00810.015 (September 26, 2011).

[4] IRS, *Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)*, Publication 334, (January 27, 2017).

[5] *SSA POMS, RS-Retirement and Survivors Insurance,* ch.RS 018, subch. RS 01801.011, sec. A (April 2, 2001).

Earnings Suspense File. Removing SEI from a person's record may result in the person not having sufficient credits to be eligible for benefits or receiving a decreased monthly benefit.

When earnings are added to a beneficiary's earnings record, SSA's Automatic Earnings Reappraisal Operation (AERO) adjusts the OASDI benefits, if necessary, and notifies the beneficiary. When earnings are removed, AERO generates an alert for the appropriate SSA office to review the beneficiary's records and manually adjust benefit amounts as needed. However, if administrative finality policies apply, SSA may not be able to correct benefit amounts or pursue recovery of payments. Therefore, the Agency may only assess overpayments in the administrative finality period.[6] If the Agency discovers an error outside the administrative finality period, it may not correct the error since the revision would be unfavorable to the claimant. However, there are various situations, such as fraud or similar fault, in which the Agency can reopen a case.

Our prior reviews[7] found that individuals reported SEI to become eligible for an Earned Income Tax Credit (EITC), a refundable tax credit available for low- to moderate-income working individuals;[8] or to acquire Social Security credits for future and/or higher OASDI benefits. Further, individuals disclaimed earnings to prevent reductions in their SSI payments or reevaluation of their disability claims.

In 2015, we reported that SSA had removed about $742 million in SEI for Tax Years (TY) 2008 to 2011 from the earning records of 49,580 individuals.[9] For our current review, we focused on 5,693 of the 49,580 individuals who were receiving Social Security benefits as of July 2015 and for whom SSA removed about $147.5 million in SEI during TYs 2008 to 2014, see Table 1. From this population, we selected three samples:

- 50 individuals who had $1.5 million in SEI removed from their earnings record,
- 50 individuals who had $1 million in SEI removed from their earnings records and whose Numident record did not show they were authorized to work in the United States, and
- 50 individuals who had $3.1 million in SEI transferred to other individuals' earnings records.

[6] Under the SSI program, the Agency can generally only assess overpayments within the administrative finality period, which is within 1 year of the date of the notice of the initial determination for any reason, within 2 years for good cause, or at any time if fraud or similar fault exists. SSA, POMS, SI, ch.SI 040, subch. SI 04070.010 010 (March 24, 2017). Under the OASDI program, SSA generally only corrects erroneous determinations if it discovers them within 4 years. *SSA, POMS, GN-General,* ch.GN 040, subch. GN 04030.050 (October 19, 2010).

[7] See Appendix B for a list of prior reports.

[8] IRS, *Earned Income Tax Credit (EITC)*, irs.gov, (last visited May 1 2017).

[9] SSA, OIG, *Self-employment Earnings Removed from the Master Earnings File, A-06-12-12123,* p. A-2, (January 2015).

Table 1: Sample Population

Description	Population	SEI Removed	Sample Size	SEI Removed
Receiving Benefits	5,412	$137.0 million	50	$1.5 million
Numident Record Did Not Show Authorized to Work	144	3.4 million	50	1.0 million
SEI Transferred to Another Individual	137	7.1 million	50	3.1 million
Total	**5,693**	**$147.5 million**	**150**	**$5.6 million**

RESULTS OF REVIEW

Of the 150 beneficiaries in our sample, 38 may have been paid about $314,000 in improper benefit payments because of SEI that was disclaimed or removed from their earnings records. This includes about $22,000 in improper payments to five beneficiaries that was not detected until our review. In addition, we identified 21 beneficiaries who had about $433,000 in questionable SEI that remained posted to their earnings records because SSA did not remove SEI from earnings records unless individuals disclaimed the income.

Table 2: Total Sample Improper Payments

Category	Sample Beneficiaries Improper Payments	Beneficiaries SSA Identified as Improperly Paid	SSA-identified Improper Payments	Beneficiaries OIG Identified as Improperly Paid	OIG-identified Improperly Paid
Involves EITC	5	5	$42,422	-	-
Questionable Disclaimed SEI	8	7	$88,273	2	$11,843
Numberholders Alleged Social Security number (SSN) Misuse	10	8	$64,191	2	$2,367
Scrambled SEI	10	9	$42,690	1	$7,906
SEI Reporting Errors	5	5	$54,370	-	-
Subtotal	**38[A]**	**34**	**$291,946**	**5**	**$22,116**
Total	**$314,062**				

Note A: We identified 38 beneficiaries who were assessed improper payments during our review.

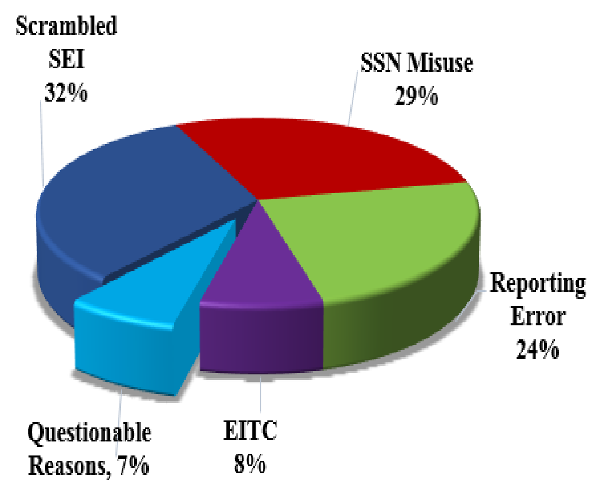
Note B: Of the 34 beneficiaries for whom SSA had assessed improper payments, we identified additional overpayments for 1 that SSA had not assessed.

Additionally, SSA did not update its Numident to reflect the citizenship status of 50 beneficiaries who were lawfully present in the United States. Although the beneficiaries provided SSA with evidence of their citizenship and lawful presence when they filed claims for benefits, staff did not update SSA's Numident. This caused inconsistencies in SSA's records for these beneficiaries.

Removal of SEI

Of the 150 beneficiaries who had $5.6 million in SEI removed from their earnings records, the SEI was removed from the earnings records for 139 beneficiaries for scrambled SEI, SSN misuse, reporting errors, and fraudulent EITC. For the remaining 11 beneficiaries, the SEI was disclaimed for questionable reasons:

- 48 (32 percent) had $2.8 million in SEI removed because of scrambled SEI;
- 43 (29 percent) had $1.1 million in SEI removed because of the numberholders' alleged SSN misuse;
- 36 (24 percent) had $900,000 in SEI removed because of reporting errors;
- 11 (7 percent) disclaimed $500,000 in SEI removed for questionable reasons; and
- 12 (8 percent) had $300,000 in SEI removed because SSA staff identified the SEI related to fraudulent EITC.



Scrambled SEI

Scrambled SEI occurs when income belonging to one individual is posted to another individual's earnings record.[10] Forty-eight beneficiaries disclaimed approximately $2.8 million in SEI because the SEI was incorrectly recorded on their earnings records. For most of the cases, the scrambled SEI occurred because numberholders and their spouses filed joint tax returns, and either there was a clerical error in processing their tax return or the numberholder's SSN was incorrectly recorded on the Schedule SE instead of the spouse's SSN.[11] SSA records showed that the spouses had a history of SEI and provided the Agency with supporting evidence, such as tax returns, showing the earnings belonged to them. SSA staff transferred the SEI from beneficiaries' records to their spouses' records. However, the scrambled earnings resulted in

[10] *SSA, POMS, RM-Records Maintenance*, ch. RM038, subch. RM 03870.045, sec. A (January 20, 2011).

[11] One case related to a son's income incorrectly being recorded to the mother's earnings record. This resulted in about $10,000 in SEI being posted to a mother's earnings record for TY 2010.

10 beneficiaries being overpaid approximately $51,000. The total improper payments included $43,000 SSA assessed for nine beneficiaries and $8,000 we identified for one beneficiary.[12] However, because of its administrative finality rules, SSA may not be able to assess or collect all the improper payments. Furthermore, five beneficiaries had $155,000 in SEI for TYs 2008 to 2015 that remained posted to their earnings records that may result in improper payments because the SEI appears to belong to their spouses. For these cases, while the SEI may be suspicious based on prior disclaimed SEI, SSA policy and business practice prevents the Agency from removing subsequent years of SEI based on a prior disclaimer statement. SSA policy requires that employees obtain from an individual a signed statement disclaiming the income and evidence to support his/her allegation before they remove income.[13] As a result, under the Agency's existing policies, SSA staff is limited in the actions it may take for these cases.

SSN Misuse

SSA removed approximately $1.1 million in SEI from the earnings records of 43 beneficiaries and recipients after the numberholders alleged others had misused their identities to earn SEI. Many beneficiaries who were victims of SSN misuse disclaimed SEI for multiple years. When SSN misuse occurs for SEI, the numberholder or representative payee must contact SSA each year and disclaim any income affiliated with SSN misuse. However, for employer-reported wages, the Agency implemented a process in December 2010 that automatically posts previously disclaimed wage items to the Earnings Suspense File. SSA does not have a similar process for SEI because, according to the Agency, it could prevent numberholders' legitimate SEI from being posted to their earnings records. The Agency stated that it only verifies names and SSNs to uniquely identify SEI records, and no additional information is available electronically to distinguish between legitimate SEI and SEI involving SSN misuse.

SSA does not immediately adjust a person's benefits when he/she disclaims the earnings. Ten of the 43 beneficiaries were overpaid about $67,000 in OASDI benefits because SSA did not recalculate their benefits when they disclaimed the earnings. The improper payments included about $64,200 SSA assessed for eight beneficiaries and $2,400 we identified for two beneficiaries.[14] However, because of the Agency's administrative finality rules, SSA may not be able to assess or collect all the improper payments. The Agency relies on AERO to screen for possible re-computation and/or recalculation of OASDI benefits when earnings records are changed. SSA runs AERO semiannually, usually in October and March. As a result, benefits may not be recalculated for months or even 1 year after the SEI was removed. Additionally, 10 beneficiaries had an additional $171,000 in SEI for TYs 2008 to 2015 posted to their records, which may involve SSN misuse. As previously noted, while the SEI may be suspicious based on prior disclaimed SEI, SSA policy and business practice requires that staff obtain from an

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[12] SSA confirmed the beneficiary was improperly paid due to the SEI incorrectly recorded on his earnings record.

[13] *SSA, POMS, RM,* ch.RM 038, subch. RM 03870.055, sec. B (February 3, 2015), and RM 03870.057, sec. A (May 7, 2008).

[14] SSA confirmed the two beneficiaries were improperly paid because the SEI was incorrectly recorded on their earnings records.

individual a signed statement disclaiming the income and evidence to support his/her allegation before removing income. As a result, under the Agency's existing policies, SSA staff is limited in the actions it may take for these cases.

SEI Reporting Errors

SSA removed about $900,000 in SEI from the earnings records of 36 beneficiaries because the SEI was not bona fide[15] or the amounts were incorrect. In some cases, the SEI was removed in error and later corrected.

- SSA removed about $261,000 in SEI for 16 beneficiaries because it determined the SEI was not bona fide. Earnings are not bona fide if the taxpayer is not carrying a trade or business; the taxpayer is not engaged in a covered activity; or there is a reason to question the accuracy of the amounts of the earnings reported. The SEI related to beneficiaries who erroneously claimed SEI for pension income, foster care payments, investment income, awards, or babysitting that was not legitimate SEI. For instance, an individual filed for retirement benefits in 2008. She had previously worked for a travel agency and did not have a history of SEI. However, for TY 2008, her accountant accidently reported a $17,800 court-ordered award as SEI on her tax return. SSA notified her in 2010 that the SEI for 2008 caused her to be overpaid $9,130. The beneficiary disclaimed the SEI and submitted a corrected wage report to remove the SEI. The questionable SEI resulted in paying 3 of the 16 beneficiaries approximately $47,000 in improper benefit payments. In addition, 6 of the 16 beneficiaries had about $107,000 in questionable SEI that remained posted to their earnings records for TYs 2008 to 2015 that, if not bona fide, may result in improper benefit payments because SSA policy and business practices prevent staff from removing SEI based on prior statements of disclaimed SEI for other years.

- SSA removed $568,000 in SEI for 16 beneficiaries because the amounts reported were incorrect. In most cases, the amount of SEI was overstated, and the beneficiaries filed amended tax returns to correct them. For example, a disabled beneficiary erroneously reported $106,800 in SEI for TY 2011. He had a history of SEI for several years before, ranging from $1,170 to $5,410. When SSA brought the error to his attention, he amended his tax return, which reduced the SEI for TY 2011 to $1,488. This amount was consistent with prior years. Overall, the incorrect SEI amounts resulted in SSA assessing about $7,000 in improper benefit payments to two beneficiaries.

- SSA removed $46,000 in SEI for four beneficiaries because SSA staff initially determined the SEI was not bona fide. However, their decisions were later reversed, and the beneficiaries were given proper credit for their SEI because it met the definition of SEI.

[15] *SSA, POMS, RS*, ch.RS 018, subch. RS 01804.070, sec. A (August 19, 2010).

Questionable Disclaimed SEI

Based on SSA records, 11 disabled beneficiaries were engaged in self-employment activities but concealed their income by disclaiming SEI or reporting it belonged to their spouses. In total, these individuals disclaimed about $500,000 in SEI to prevent overpayments or to become eligible for benefits. The beneficiaries' earnings records showed that many had a prior history of self-employment before they disclaimed the SEI. In addition, the reported names and addresses on the tax returns matched SSA's benefit records, which further indicated they might have earned the SEI. Furthermore, since the SEI could have negatively affected their benefit eligibility and/or payment amounts, we question whether the SEI should have been removed.

The beneficiaries disclaimed the SEI when they were questioned during CDRs or when they filed claims. According to SSA policy, staff should be aware of circumstances when it may be to an individual's advantage to disclaim earnings. If it appears to be to the individual's advantage to have earnings removed, staff should not accept the statement or remove the earnings based on the statement without completely investigating the situation.[16] Identifying cases that involve concealed SEI can be time-consuming and require that staff review the person's prior work history, earnings, and CDR development history as well as other evidentiary matter. In many cases, the beneficiaries' reasons to disclaim the SEI appeared legitimate. However, previous or subsequent information may show the SEI actually belongs to the beneficiaries.

The SEI caused 8 of the 11 beneficiaries to be overpaid approximately $100,000. The Agency had already assessed about $88,000 in overpayments for seven beneficiaries, and we identified an additional $12,000 in overpayments for two beneficiaries. For one of the two beneficiaries, we identified an additional improper payment the Agency had not assessed. For example, in one case, an individual reported about $7,900 in SEI for TY 2013 but disclaimed the income in December 2014 after SSA staff contacted her. The individual informed the Agency that she had not worked since she became disabled. However, about $7,200 in SEI was reported for this individual in 2014. Later, on a CDR mailer, she contradicted herself about her 2013 SEI. In August 2014, she stated that she worked from December 2012 to November 2013 earning about $7,900. Since the 2013 and 2014 income appeared to belong to the individual, she may have initially disclaimed it to avoid a negative impact to her benefit payments when SSA recalculated her benefits. The individual was overpaid about $6,400 in benefits because of the disclaimed SEI. We referred both cases to SSA and the Agency agreed with the overpayments.

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[16] *SSA, POMS, RM,* ch.RM 038, subch. RM 03870.060, sec. B (January 29, 2015).

EITC

SSA removed about $300,000 in SEI from 12 SSI recipients' earnings records after they acknowledged they falsified SEI on their tax returns to obtain the EITC from the IRS. However, the falsified SEI resulted in six recipients being paid approximately $44,000 in improper SSI payments. The Agency had assessed about $42,000 in improper payments for five recipients, and we identified an additional $1,800 improper payment for one recipient. SSA determined that services were not performed or income was not earned. The Agency identified most of these cases after it assessed overpayments to the recipients. The recipients disclaimed the SEI to avoid the negative effects the income had on their eligibility for SSI payments. For example, SSA staff removed approximately $40,000 in SEI over a 4-year period from a disabled recipient's earnings record after the recipient realized the fictitious SEI caused her to be overpaid. She acknowledged she was not self-employed and had falsified SEI on her tax return to claim the EITC. SSA deleted the fictitious income from the 12 recipients' earnings records and, through an established process, notified the IRS of the tax-related fraud.[17]

Numident Did Not Show Authorized to Work

SSA had not updated its Numident[18] to reflect the citizenship status of 50 foreign-born beneficiaries who were lawfully present in the United States. Although the beneficiaries provided SSA with evidence of their citizenship and lawful presence when they filed their benefit claims, staff had not updated the Numident, causing inconsistencies in SSA records. The Numident showed 48 beneficiaries were foreign-born and did not have a citizenship status code, and 2 beneficiaries were not authorized to work. The 48 beneficiaries did not have citizenship status codes on their Numident records because they were assigned SSNs between 1956 and 1985, before SSA established citizenship codes on the Numident in 1985.

When noncitizens apply for benefits, they must submit evidence to prove their lawful presence in the United States unless that status has already been proven.[19] SSA verifies the immigration and work authorization status for noncitizens with the Department of Homeland Security (DHS) via the Systematic Alien Verification for Entitlements Program and updates the benefit records. According to SSA staff, the Agency does not have a process to match the benefit records and the Numident to identify inconsistencies in citizenship data. SSA staff can adjudicate a claim for benefits without updating the Numident with the current citizenship status. However, staff could be alerted to the discrepancy during the application process because certain information from the

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[17] This process was established based on our prior review SSA, OIG, *Overstated Earnings and Their Effect on SSA Program*, A-03-05-25018, (August 7, 2007).

[18] The Numident includes identifying information (such as name, date of birth, and mother's maiden name) provided by the applicant on his/her *Application for a Social Security Card* (Form SS-5) for original and replacement SSN cards for every SSN issued.

[19] *Social Security Act, 42 U.S.C. 402, § 202(y). Personal Responsibility and Work Opportunity Reconciliation Act, Pub L. No. 104-193, §401, 110 Stat. 2261 (1996).*

Numident propagates to the claims process. In these cases, staff would need to take separate action to update the Numident. If the Numident is not updated, there may be inconsistent data between the Numident and payment record, but the payment record would be correct. Therefore, this inconsistency does not affect the accuracy of SSA's program benefit payments.

While SSA is not responsible for making citizenship and lawful presence determinations, other Federal agencies and employers rely on SSA's indication of citizenship associated with the SSN. Therefore, inaccurate information on the Numident could result in non-confirmation of citizenship status to employers or Federal agencies. When alleged citizenship information does not match SSA's Numident, the requesting agency is responsible for obtaining additional proof of current U.S. citizenship or lawful presence status from the individual or DHS.[20] For example, SSA's Numident records are used to indicate citizenship status for other Federal agencies, as discussed below.

- SSA supports DHS in administering the E-Verify program, which assists participating employers in determining whether newly hired employees are authorized to work in the United States.[21] SSA verifies the new hire's SSN, name, and date of birth and determines whether the alleged citizenship matches information in its Numident. If citizenship information does not match, DHS will review its records to determine current authorization to work. DHS is also responsible for verifying all noncitizens' current work authorizations.

- Under the *Higher Education Act*,[22] the Department of Education must ensure students who apply for financial assistance satisfy eligibility requirements. SSA verifies the applicant's SSN and confirms the allegations of his/her citizenship status as recorded in its Numident.

- Under the *Affordable Care Act*,[23] SSA verifies the name and SSN and confirms the alleged citizenship status, as stated in its Numident, to help the Department of Health and Human Services make eligibility determinations for health care coverage. DHS is responsible for confirming citizenship status.

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[20] DHS is responsible for making current citizenship and lawful presence determinations.

[21] The *Illegal Immigration Reform and Immigrant Responsibility Act of 1996*, Pub. L. No. 104-208, 110 Stat. 3009-546 (1996).

[22] *Title VI of the Higher Education Act of 1965, Pub. L. No. 89-329,* as amended by Pub. L. No 113-67, §484(a), pp. 569-570 (2013).

[23] *Patient Protection and Affordable Care Act, Pub. L. No. 111-148, §1411(c),124 Stat. 226 (2010), as amended by the Health Care and Education Reconciliation Act, Pub. L. No.111-152, §1411(c), p. 125 (2010), collectively referred to as the Affordable Care Act.*

CONCLUSIONS

Of the 150 beneficiaries for whom SSA removed $5.6 million in SEI from their earnings records for TYs 2008 to 2014, it appeared 7 percent disclaimed the SEI for questionable reasons. About 8 percent of the beneficiaries reported SEI to fraudulently obtain the EITC and only disclaimed the income after realizing it would negatively affect their benefits. SSA removed the SEI from the earnings records of about 85 percent of the beneficiaries in our sample because of SSN misuse or other reporting errors. In addition, we identified 21 beneficiaries who had about $433,000 in questionable SEI that remained posted to their earnings records because SSA did not remove SEI from earnings records unless individuals disclaimed the income.

RECOMMENDATIONS

We recommend SSA:

1. Review and take appropriate actions for five beneficiaries who had improper payments that we identified during our review.

2. Attempt to contact the 50 beneficiaries and obtain current documentation required to update the citizenship and lawful presence on the Numident.

3. Remind staff to update the Numident when individuals provide evidence of citizenship and lawful presence as part of their benefit claims.

AGENCY COMMENTS

SSA agreed with our recommendations. The Agency's comments are included in Appendix C.

Rona Lawson
Assistant Inspector General for Audit

APPENDICES

Appendix A – 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.

- Researched SSA's Program Operations Manual System related to self-employment income (SEI), disclaimed and deleted wages, the Item Correction process, and types of entitlement.

- From a 2015 Office of the Inspector General report, we identified 49,580 numberholders for whom SSA deleted or suspended SEI from their earnings records for Tax Years (TY) 2008 to 2014. Specifically, we:

    - Reviewed the Master Beneficiary (MBR) and Supplemental Security Records' (SSR) Current Pay Files as of July 2015 for each numberholder to determine whether they were receiving benefits and, if so, the type of benefit being received.

    - Compared the MBR and SSR with the person's Numident records as of September 2015 to determine whether the person's name and age matched, the person's citizenship status, and whether the person had a date of death on the Numident.

    - Analyzed the person's Master Earnings File records and Earnings Suspense File records for TYs 2008 to 2014 to determine the amount of SEI (1) still on the numberholder's record, (2) deleted and/or disclaimed, and (3) reinstated to the person's record.

- From the 49,580, we identified 5,693 individuals who were receiving Social Security benefits. For this population, we found

    - 5,412 had about $137 million in SEI removed from their earnings records;

    - 144 were foreign-born and did not have a citizenship status code on the Numident or were issued a non-work SSN. SSA removed about $3.4 million in SEI from their earnings records; and

    - 137 had about $7.1 million in SEI transferred from their records to other individuals' earnings records.

- We selected a random sample of 50 from each of the 3 populations for a total of 150 cases. For our sample cases, we analyzed information in the following systems to determine whether the removal of the SEI was appropriate.

    - The Item Correction Self-Employment Determination Details and Rationale screens to determine the period for which SSA removed the SEI, the basis for removal, whether the Internal Revenue Service was notified, the spousal information, and the rationale provided for the removal of SEI.

- The Claims File Records Management System, which contained Form SSA-795 – *Statement of Claimant*, tax returns, benefit applications, and other files to determine the sufficiency of evidence provided as justification for the removal of SEI.

- The MBR and SSR to determine the type of benefit as well as whether benefit payments were adjusted.

We conducted our audit between March 2016 and March 2017 in Philadelphia, Pennsylvania, and Baltimore, Maryland. We determined the data used for this audit were sufficiently reliable to meet our audit objective. The primary entities audited were the Offices of the Deputy Commissioners for Systems and Operations. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B – RELATED OFFICE OF THE INSPECTOR GENERAL AUDIT REPORTS

The following table shows some of the Office of the Inspector General (OIG) reports issued related to disclaimed or deleted self-employment income (SEI). All our reports are on our Website.

Title	Issued	Findings
Self-employment Earnings Removed from the Master Earnings File (A-06-12-12123) (Limited Distribution)	January 30, 2015	SSA removed from the Master Earnings File about $742 million in SEI originally reported on approximately 50,000 numberholders' Federal income tax returns for Tax Years (TY) 2008 through 2011. From 150 cases reviewed, 28 related to falsified SEI on their tax return to fraudulently obtain an Earned Income Tax Credit (EITC) and 19 cases related to not bona fide SEI, which was deleted.
Individuals Hiding Self-Employment Income to Receive Disability Insurance Benefits (A-07-12-11268)	January 11, 2013	We found that 5 (10 percent) of the 50 beneficiaries were engaged in self-employment activities and concealed their income by reporting it under their spouses' Social Security numbers. Of these five beneficiaries, three inappropriately received benefits totaling approximately $348,000, and their auxiliaries inappropriately received about $77,000.
Overstated Earnings and the Effect on Social Security Administration Programs (A-03-05-25018)	August 7, 2007	We found 2,348 SEI items related to 1,355 individuals with OASDI records who reported SEI in TYs 2000 to 2003 that were later removed from each earnings record at the individual's request. We identified 7 individuals who stated the fictitious SEI was reported to obtain Social Security work credits to qualify for benefits or increase existing benefit amounts and 150 admitted to creating SEI for tax reasons, such as EITC fraud.

Appendix C – AGENCY COMMENTS

SOCIAL SECURITY

MEMORANDUM

Date: February 16, 2018 Refer To: S1J-3

To: Gale S. Stone
Acting Inspector General

Stephanie Hall

From: Stephanie Hall
Acting Deputy Chief of Staff

Subject: Office of the Inspector General Draft Report, “Removal of Self-employment Income and the Impact on Social Security Benefits” (A-03-16-50102)--INFORMATION

Thank you for the opportunity to review the draft report. Please see our attached comments.

Please let me know if we can be of further assistance. You may direct staff inquiries to Gary S. Hatcher at (410) 965-0680.

Attachment

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "REMOVAL OF SELF-EMPLOYMENT INCOME AND THE IMPACT ON SOCIAL SECURITY BENEFITS" (A-03-16-50102)

General Comment

We are committed to ensuring our customers receive correct payments. Over 66 million people receive benefits from Social Security each month, many who also have earnings from wages and self-employment income (SEI). Our customers are responsible for reporting certain changes and reviewing earnings shown on their records. We have different processes for developing disclaimed SEI and wages. When wages are involved, generally we go back to the employer to resolve the outstanding earnings issue. For SEI, we rely on the tax return and other evidence for resolution of those earnings.

When we adjudicate claims, we presume the SEI reported by the claimant to be correct. When there are exceptions, we direct our technicians to conduct further development, such as obtaining and reviewing the tax returns. In all instances, our policy requires we obtain an individual's signed statement disclaiming wages or SEI before removal of those earnings from a claimant's record. Because an individual may disclaim self-employment income in a given year and still engage in bona fide self-employment activity in the future, it is important that we follow our established policy and business process prior to making any changes to the earnings record.

With regard to the citizenship inconsistencies identified in our records, we will remind staff of the policy to update the Numident when a beneficiary files an application and provides the required documentary evidence. In addition, we will be cognizant of this issue while we develop our modernized information technology processes, as we strive to eliminate inconsistent interactions between our systems and provide improved service to the public.

Recommendation 1

Review and take appropriate actions for five beneficiaries who had improper payments that we identified during our review.

Response

We agree.

Recommendation 2

Attempt to contact the 50 beneficiaries and obtain current documentation required to update the citizenship and lawful presence on the Numident.

Response

We agree.

Recommendation 3

Remind staff to update the Numident when individuals provide evidence of citizenship and lawful presence as part of their benefit claims.

Response

We agree.

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