



SOCIAL SECURITY
Office of the Inspector General

MEMORANDUM

Date: May 16, 2001

Refer To: ICN 31126-23-156

To: Larry G. Massanari
Acting Commissioner
of Social Security

From: Inspector General

Subject: Force Processing of Magnetic Media Wage Reports with Validation Problems
(A-03-99-31001)

The attached final report presents the results of our audit. Our objective was to review the Social Security Administration's oversight of force processing of magnetic media wage reports with validation problems. In particular, we assessed the impact of new reporting thresholds established since Tax Year 1996 to improve the quality of wage reports.

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

James G. Huse, Jr.

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**FORCE PROCESSING OF
MAGNETIC MEDIA WAGE REPORTS
WITH VALIDATION PROBLEMS**

May 2001 A-03-99-31001

AUDIT REPORT



Mission

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

Authority

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

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

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

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

Vision

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

Executive Summary

OBJECTIVE

The objective of our audit was to review the Social Security Administration's (SSA) oversight of force processing of magnetic media wage reports with validation problems.

BACKGROUND

Title II of the Social Security Act requires SSA to maintain records of wages employers pay to individuals. As such, employers report employee earnings to SSA annually on Internal Revenue Service (IRS) Form W-2, *Wage and Tax Statement*. Employers with 250 or more employees submit annual wage reports on magnetic media (tape, diskette or cartridge) instead of a paper document.

For Tax Years (TY) 1995 and prior, SSA accepted magnetic media if as few as 10 percent of the names and Social Security numbers (SSN) matched SSA's records. SSA increased the acceptance threshold to 30 percent for TY 1996 and to 50 percent for TY 1997 (with a maximum of 5,000 errors allowed). SSA returns to the employer for correction and resubmission any annual wage report that does not meet the threshold. In addition, the instructions for the Form W-2 contain a penalty provision of \$50 per error for submitting inaccurate name/SSN combinations.

SSA's instructions provide an exception for employers who do not meet the acceptance threshold. To receive the exception, employers must notify SSA that they have corrected errors to the extent possible but still cannot meet the threshold. SSA will then force process the report, which suspends a system edit, and notifies the employer it will do so one time only. SSA also has Employee Service Liaison Officers (ESLO) to respond to questions from employers and third-party filers.

SSA decided to permit force processing as a temporary relief mechanism to help employers adjust to the new wage reporting accuracy standards. Those W-2s that do not match SSA's records are accumulated in the Earnings Suspense File (ESF). Force processing of wage reports results in unmatched W-2s going directly to the ESF.

RESULTS OF REVIEW

SSA's intent in increasing its acceptance threshold to 50 percent was to alert employers that SSA was going to require more accurate name/SSN data. SSA advises employers that force processing is for 1 year only, and it will ask the IRS to assess penalties on employers who continue to submit W-2s with incorrect names and SSNs. Despite these warnings, SSA continues to force process wage reports for the same employers and has not identified the employers so the IRS can impose penalties for reports over the acceptance level. Therefore, employers have no incentive to improve their wage

reporting accuracy and the wage reporting system. When SSA does not follow its own procedures, its credibility is impaired. Specifically, we found SSA:

- Had no management information system to identify employers who continually submit wage reports that fail SSA's acceptance threshold.
- Experienced an 11.4 percent increase in submitted wage reports during TYs 1996 through 1998, while force processed wage reports increased 1,107 percent during the same period.
- Force processed wage reports for the same 285 employers during TYs 1996 through 1998.
- Force processed wage reports for the same 3,713 employers for TYs 1997 and 1998 (this number includes the 285 employers mentioned above).
- Had not identified these employers for the IRS to assess monetary penalties of \$50 per error against the employers for submitting inaccurate name/SSN combinations, which would have totaled approximately \$8.5 million for the 285 employers that continued to submit W-2s with incorrect names and SSNs for 3 consecutive years.
- Encountered employers who circumvented the acceptance threshold by sending their wage reports in on paper or by removing the failed W-2s and resubmitting them as separate paper reports.
- Did not send educational correspondence (EDCOR) to employers whose wage reports had been force processed listing all the problem W-2s or follow-up letters to those employers advising them of SSA's policies or possible penalties for failing to submit valid wage reports.

CONCLUSIONS AND RECOMMENDATIONS

Increasing the acceptance threshold to 30 percent and then to 50 percent (with a 5,000 error cap) was intended to improve employer reporting practices. However, SSA force processes wage reports for the same employers over multiple years, which gives employers no incentive to improve wage reporting accuracy. Thus, for these employers, wage reporting accuracy will not improve, and their unmatched wages will continue to accumulate in the ESF.

To improve its management oversight and overall control environment over force processing, we recommend that SSA:

- Develop a management information system to identify employers who have their wage reports force processed and identify the number of times their wage reports are force processed.
- Ensure ESLOs contact the 285 employers whose wage reports SSA force processed during TYs 1996 through 1998 to educate them on wage reporting services available through SSA and encourage their participation at seminars and workshops.
- Provide information on chronic problem employers to the IRS to impose penalties. In the event the IRS fails to impose such penalties, SSA should consider a legislative proposal to establish its own sanctioning (penalty) authority.
- Provide employers with EDCOR that lists the problem W-2s and explains why accurate names and SSNs are important and possible penalties that may be imposed due to incorrect information.

AGENCY RESPONSE

Regarding Recommendation 1, SSA noted that a management information system to track force processing information is no longer necessary. In TY 2000, SSA changed the name/SSN threshold to allow 95 percent of an employer's electronic wage reports to be in error before SSA rejects the submission. By implementing this policy, SSA virtually eliminated the need for force processing. SSA is also sending EDCOR to employers who meet the threshold but have more than 10 name/SSN mismatches. SSA is establishing an Earnings Data Warehouse that will help evaluate employer reporting trends, including errors, beginning with TY 1998 data. SSA expects the management information provided through the new system will help it more readily identify, track, and work with employers who have a large number of items with name/SSN mismatches that cannot be posted to a wage earner's record.

In response to Recommendation 2, SSA noted that, since TY 1996, it has identified employers with 100 or more items in suspense each TY and has sent this information to the ESLOs. ESLOs use this information to make contacts and provide reporting guidelines and services to employers. SSA also stated these listings included the employers the OIG identified, all of whom have been contacted. SSA also found that approximately one-third of the employers we identified as failing the threshold for 3 consecutive years met the 50 percent threshold standard in TY 1999, leaving the remainder to be force processed.

SSA addressed Recommendation 3 by noting the Agency provided a list of 100 employers to the IRS in August 2000. These employers represented those with the largest number of name/SSN match failures in consecutive years. IRS expressed interest in the listing but has not assessed penalties. SSA also pointed out that the IRS is the Federal agency responsible for levying and collecting taxes and has the authority

and infrastructure to impose penalties, making it a better administrator of any necessary penalties.

Finally, SSA agreed with Recommendation 4 suggesting that it provide employers with improved EDCOR. SSA noted that, beginning in TY 2000, it plans to (1) change the 50 percent tolerance rate for accepting Annual Wage Reports with name/SSN errors to 95 percent; (2) strengthen the EDCOR notice to include stronger language about possible IRS penalties and to request that the employer correct the names/SSNs; and (3) increase the number of reported SSNs in the EDCOR from 250 to 500. After TY 2001, SSA plans to provide employers with a list of all name/SSN errors.

OFFICE OF THE INSPECTOR GENERAL RESPONSE

We commend SSA for its plans to improve correspondence with employers who submit incorrect names/SSNs in their wage reports. The new procedures noted in Recommendations 1 and 4 should provide employers better information when they attempt to resolve incorrect wage reports. However, we do not agree with SSA's new acceptance threshold and believe that correspondence alone is insufficient to effectively meet SSA's goal of reducing the size and growth of the ESF. In addition, SSA's responses to Recommendations 2 and 3 outline efforts to monitor chronic problem employers. Nonetheless, more needs to be done before SSA has an effective means of holding employers responsible for submitting incorrect wage reports.

We believe SSA's elimination of the 50 percent threshold and its replacement with a 95 percent threshold, leaves the Agency open to greater reporting errors and more suspended wages. Unlike earlier TYs, employers can now submit wage reports where up to 95 percent of the names/SSNs are incorrect and expect nothing more than lengthy correspondence from SSA in return. Although the employer will get up to 500 name/SSN errors, the employer has the option of ignoring this correspondence with no follow-up by SSA. For this reason, we encourage SSA to reconsider eliminating the 50 percent threshold until it has sufficient time to determine the impact this policy change will have on the ESF.

SSA's response to Recommendation 2 does not consider that (1) SSA did not have a management information system in place to identify and monitor these chronic problem employers; (2) the improvement shown by these employers in TY 1999 may be due to the wage reports being rejected and resubmitted, a process SSA has decided to end; and (3) the remaining two-thirds of the chronic problem employers have not met the 50 percent threshold for 4 consecutive years.

SSA's response also mentions that ESLOs will continue to monitor these chronic problem employers. Additionally, SSA plans to provide ESLOs a list of employers with 100 or more items in the ESF for TY 1999. Nonetheless, we reported in our audit, *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items (A-03-98-31009, September 1999)*, that this ESLO list can be as large as 7,000 employers. As such, we believe SSA should have its own

management information system in place to identify such problems as employers who failed to meet the threshold for 4 consecutive years. Only with such a system in place can SSA refer a meaningful and manageable list of employers to the ESLOs. SSA may want to continue using the 50 percent threshold in its Earnings Data Warehouse evaluations to identify chronic problem employers, even if this threshold is not used for rejecting incoming wage reports.

Finally, SSA's response to Recommendation 3 illustrates some progress in assessing sanctions against chronic problem employers. SSA's cooperation with the IRS on the list of 100 employers is a good start. However, SSA has been warning employers about sanctions for several years without any real action by the IRS. Elevating this language without IRS follow-through will do nothing to improve the quality of wage reporting or reduce the ESF's size and growth. It is for this reason that we continue to encourage SSA to seek its own sanctioning authority if efforts with the IRS fail to produce results.

SSA also provided technical comments that we considered and incorporated, where appropriate. SSA's comments are included in Appendix A.

Table of Contents

	Page
INTRODUCTION	1
RESULTS OF REVIEW	4
SSA Management Did Not Monitor Force Processing Data	4
SSA Force Processed the Same Employers' Wage Reports Year After Year.....	5
Large Employers Could Bypass Controls and Resubmit on Paper	6
SSA Did Not Notify Employers In Writing of Force Processing Procedures	7
CONCLUSIONS AND RECOMMENDATIONS	8
APPENDICES	
Appendix A – Agency Comments	
Appendix B – OIG Contacts and Staff Acknowledgments	

Acronyms

EDCOR	Educational Correspondence
ESF	Earnings Suspense File
ESLO	Employer Services Liaison Officer
EVS	Enumeration Verification System
IRS	Internal Revenue Service
OCO	Office of Central Operations
SSA	Social Security Administration
SSN	Social Security Number
TY	Tax Year
WBDOC	Wilkes-Barre Data Operations Center

Introduction

OBJECTIVE

The objective of our audit was to review the Social Security Administration's (SSA) oversight of force processing of magnetic media wage reports with validation problems.

BACKGROUND

Title II of the Social Security Act requires SSA to maintain records of wages employers pay to individuals. As such, employers report employee earnings to SSA annually on an Internal Revenue Service (IRS) Form W-2, *Wage and Tax Statement*. Employers with 250 or more employees submit annual wage magnetic media (tape, diskette, or cartridge) instead of a paper document.

For Tax Years (TY) 1995 and prior, SSA accepted magnetic media if as few as 10 percent of the names and Social Security numbers (SSN) matched SSA's records. SSA increased the acceptance threshold to 30 percent for TY 1996 and to 50 percent for TY 1997 (with a maximum of 5,000 errors allowed).¹ SSA returns to the employer for correction and resubmission any annual wage report that does not meet the threshold.

SSA's instructions provide an exception to employers who do not meet the acceptance threshold. To receive the exception, employers must notify SSA that they have corrected errors to the extent possible but still cannot meet the threshold. SSA will then force process the report, which suspends a system edit, and notifies the employer it will do so one time only. SSA decided to permit force processing as a temporary relief mechanism to help employers adjust to the new wage reporting accuracy standards. Those W-2s that do not match SSA's records are accumulated in the Earnings Suspense File (ESF). Force processing of wage reports results in unmatched W-2s going directly to the ESF.²

¹ In an August 14, 2000 memorandum from the Office of the Inspector General (OIG) to SSA's Office of Program Benefits (subject: Review of Proposed Wage Report Regulations), OIG recommended that SSA amend applicable regulations (20 CFR § 422.114(c)) to comport with SSA's policy change of increasing the acceptance threshold from 10 percent to 50 percent for magnetic media wage reporting.

² In our report, *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items* (September 29, 1999, A-03-98-31009), we reviewed SSA's patterns of reporting inaccuracies in employers' annual wage reports.

Before SSA force processes a report, it explains to employers the following.

- SSA will ask the IRS in the future to assess monetary penalties against employers who continue to submit W-2s with incorrect names and SSNs. The instructions for the Form W-2 contain a penalty provision of \$50 per error for submitting inaccurate name/SSN combinations.
- Magnetic media reports that do not meet the name/SSN tolerance are not to be resubmitted on paper. The employer may have a wage report force processed 1 year only.
- SSA encourages employers to use the Enumeration Verification System (EVS) the following TY to validate the SSNs reported. EVS is a voluntary program that offers employers a mechanism to match employee names and SSNs with SSA's records. By doing so, employers can ensure employees have provided accurate information.
- Failure to credit earnings to the worker's earnings record could affect the worker's entitlement to Social Security benefits and the amount of the benefits in the future.
- Both SSA and the employer incur additional costs in re-processing reports.

SSA also has Employer Services Liaison Officers (ESLO) nationwide to respond to questions from employers and third-party filers as well as an Employer Reporting Service Center with a toll-free number.

SCOPE AND METHODOLOGY

To accomplish our objective, we:

- obtained and reviewed the written procedures at the Office of Central Operations (OCO) over force processing of magnetic wage reports;
- reviewed applicable sections of SSA's *Program Operations Manual System*, *Modernized Systems Operations Manual*, and other material pertaining to force processing of magnetic media reports;
- observed the force processing of magnetic media submissions at OCO;
- observed the processing of paper wage reports at the Wilkes-Barre Data Operations Center (WBDOC); and
- interviewed personnel at OCO's Division of Employer Services, the WBDOC, and the Office of Systems Requirements.

We obtained data extracts of magnetic media wage reports from TYs 1996 through 1998 that were force processed with “4513” or “4551” critical error codes (magnetic media submissions that fail the name/SSN acceptance threshold and 5,000 cap, respectively). We compared the employer identification numbers from each of the 3 TYs to determine whether an employer had wage reports force processed more than 1 TY. Our audit did not include a test of information systems to verify the completeness and accuracy of the force processing data provided by SSA.

We performed our audit at SSA Headquarters and OCO in Baltimore, Maryland; the WBD0C in Wilkes Barre, Pennsylvania; and our office in Philadelphia, Pennsylvania, between December 1998 and February 2000. The entity audited was OCO within the Office of the Deputy Commissioner for Operations. We conducted our audit in accordance with generally accepted government auditing standards.

Results of Review

SSA's policy requires employers submitting magnetic media wage reports to meet the acceptance threshold. SSA informs employers whose wage reports do not meet the acceptance threshold of possible penalties. However, SSA's policies and procedures are not having their intended effect of improving employer reporting practices. Specifically, our review of SSA's data shows that SSA:

- Had no management information system to identify employers who continually submit wage reports that fail SSA's acceptance threshold.
- Experienced an 11.4 percent increase in submitted wage reports during TYs 1996 through 1998, while force processed wage reports increased 1,107 percent during the same period.
- Force processed wage reports for the same 285 employers during TYs 1996 through 1998.
- Force processed wage reports for the same 3,713 employers in TYs 1997 and 1998 (this number includes the 285 employers mentioned above).
- Had not identified these employers for the IRS to assess monetary penalties of \$50 per error against the employers for submitting inaccurate name/SSN combinations, which would have totaled approximately \$8.5 million for the 285 employers that continued to submit W-2s with incorrect names and SSNs.
- Encountered employers who circumvented the acceptance threshold by sending their wage reports in on paper or by removing the failed W-2s and resubmitting them as separate paper reports.
- Did not send educational correspondence (EDCOR) to employers whose wage reports had been force processed listing all the problem W-2s or follow-up letters to those employers advising them of SSA's policies or possible penalties for failing reports.

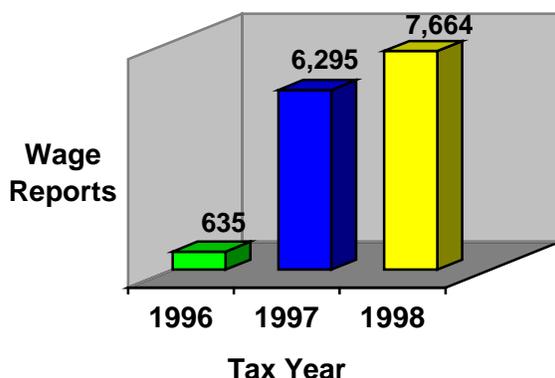
SSA MANAGEMENT DID NOT MONITOR FORCE PROCESSING DATA

SSA had no management information system to identify employers who continually submitted wage reports that failed SSA's acceptance threshold. At the start of the review, we asked SSA for a data extract of employer wage reports force processed for TYs 1996 through 1998. Since SSA was not accumulating this information, it was necessary for SSA to develop software to extract the records force processed from its employer control data base. During several meetings with SSA personnel, we were

informed these earnings records were not a priority. As a result, SSA did not want to devote programming resources to such an effort. SSA eventually provided these records for our review.

Our analysis of the data shows that SSA experienced an 11.4 percent increase in submitted wage reports between TYs 1996 and 1998, while force processed wage reports increased 1,107 percent during this same period. When SSA increased the acceptance threshold from 30 percent (for TY 1996) to 50 percent (for TY 1997), the number of wage reports force processed increased 891 percent from 635 for TY 1996 to 6,295 for TY 1997. From TYs 1997 to 1998, the number of wage reports force processed increased 22 percent to 7,664 (see Figure 1). Our analysis of the data identified trends that we discuss below.

Figure 1: Employer Wage Reports Force Processed in TYs 1996 through 1998



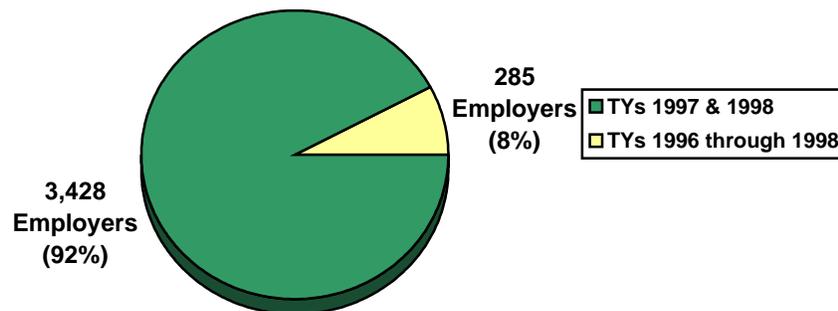
SSA FORCE PROCESSED THE SAME EMPLOYERS' WAGE REPORTS YEAR AFTER YEAR

SSA began informing employers in TY 1996 that it would force process wage reports that did not meet the acceptance threshold for 1 year only. SSA also told employers it would ask the IRS to assess penalties against employers who continue to submit W-2s with incorrect names and SSNs, which could be a charge of \$50 each time the employer furnishes an incorrect name/SSN combination. However, SSA did not track whether an employer had a wage report force processed from 1 year to the next. As a result, employers that had wage reports force processed in TY 1996 continued to submit wage reports in TYs 1997 and 1998 that did not meet the acceptance threshold and had to be force processed again.

Our analysis found that, despite the “one time only” warning to employers, SSA force processed wage reports for the same employers year after year. We found that 419 employers who had their wage reports force processed in TY 1996 also had their

wage reports force processed again in TY 1997. Furthermore, 3,713 employers who had wage reports force processed in TY 1997 had their wage reports force processed again in TY 1998 (see Figure 2). Our analysis also determined that wage reports for the same 285 employers were force processed in TYs 1996 through 1998 (this number is included in both the 419 and 3,713 counts above).

Figure 2: Multiple Force Processed Wage Reports for 3,713 Employers Reporting in TY 1998



SSA had not taken steps to monitor the force processing data and continued to force process wage reports regardless of the one time only policy. SSA also had not identified these employers so the IRS could impose penalties on the wage reports that were over the acceptance level. For example, in FY 1998, approximately \$8.5 million in penalties could have been assessed against the 285 employers whose wage reports SSA force processed in TYs 1996 through 1998.³ SSA's lack of follow through with its own procedures, after warning the employer of consequences, may impair the Agency's credibility in the future.

LARGE EMPLOYERS COULD BYPASS CONTROLS AND RESUBMIT ON PAPER

SSA has acknowledged that large employers with validation problems bypassed SSA's tolerance levels by resubmitting their wage reports in paper form. SSA permits employers who have less than 250 employees to submit their annual wage reports on paper to the WBD0C. Meanwhile, SSA will process wage reports filed on paper regardless of the number of W-2s reported or the name/SSN error level. In this way, the employer can avoid SSA's systems edits.

³ The 285 employers force processed for TYs 1996 through 1998 submitted wage reports with 170,670 incorrect W-2s for TY 1998.

In an October 23, 1997 memorandum to the Deputy Commissioner for Systems, the Acting Deputy Commissioner for Finance, Assessment and Management stated, "When earnings reports are returned by SSA to employers/submitters because of name/SSN tolerance failures, we have learned that some strip-off the failed W-2s and submit them as separate paper reports. Evidently some are aware that SSA does not return paper reports regardless of the name/SSN error level."

SSA tells employers who fail to meet the name/SSN tolerance they are not allowed to resubmit on paper and will be subject to penalties for noncompliance. However, since SSA was not tracking magnetic media wage reports rejected for name/SSN validation errors, it had no way of determining whether, or to what extent, wage reports that failed were resubmitted on paper.

SSA DID NOT NOTIFY EMPLOYERS IN WRITING OF FORCE PROCESSING PROCEDURES

SSA did not notify employers with force processed wage reports why the problem occurred and how it could be corrected. When an employer submits a magnetic media report containing name and/or SSN failures at a level between 10 and 49 percent, the submitters receive a letter called EDCOR. This letter lists up to 250 of the problem W-2s and asks the employer to try to correct the errors. The letter explains why accurate names and SSNs are important and possible penalties that may be imposed because of incorrect information. The letter also gives tips on ensuring accurate wage reporting.

However, SSA did not send EDCOR to employers whose wage reports had been force processed. Under this practice, for example, an employer who submits a wage report with 15 percent of the W-2s in error will get a detailed report on the problem W-2s. Whereas, an employer who submits a wage report that is force processed with 60 percent of the W-2s in error will not receive a detailed report from SSA identifying the problems that need to be resolved in the future. Hence, SSA's own policy does not require the Agency to contact the 285 employers noted earlier whose wage reports had to be force processed 3 years in a row.

Conclusions and Recommendations

SSA's policy of increasing the acceptance threshold to 30 percent and then to 50 percent (with a 5,000 error cap) was intended to improve employer reporting practices. However, SSA had not established a management information system to monitor the results of the force processing workload. As a result, SSA force processed wage reports for the same employers over multiple years. In addition, SSA did not follow through with the IRS to impose penalties on the employers who submitted wage reports that were over the acceptance level. Hence, the employers had no incentive to improve wage reporting accuracy, and their unmatched wages will continue to accumulate in the ESF.

To improve its management oversight and overall control environment over force processing, we recommend that SSA:

1. Develop a management information system to identify employers who have their wage reports force processed and identify the number of times their wage reports are force processed.
2. Ensure ESLOs contact the 285 employers whose wage reports SSA force processed during TYs 1996 through 1998 to educate them on wage reporting services available through SSA and encourage their participation at seminars and workshops.
3. Provide information on chronic problem employers to the IRS to impose penalties. In the event the IRS fails to impose such penalties, SSA should consider a legislative proposal to establish its own sanctioning (penalty) authority.⁴
4. Provide employers with EDCOR that lists the problem W-2s and explains why accurate names and SSNs are important and possible penalties that may be imposed due to incorrect information.

AGENCY RESPONSE

Regarding Recommendation 1, SSA noted that a management information system to track force processing information is no longer necessary. In TY 2000, SSA changed the name/SSN threshold to allow 95 percent of an employer's electronic wage reports to be in error before SSA rejects the submission. By implementing this policy, SSA virtually eliminated the need for force processing. SSA is also sending EDCOR to employers who meet the threshold but have more than 10 name/SSN mismatches.

⁴ We previously made this recommendation in our SSA OIG report, *SSA's Earnings Suspense File Tactical Plan* (February 7, 2000, A-03-97-31003).

SSA is establishing an Earnings Data Warehouse that will help evaluate employer reporting trends, including errors, beginning with TY 1998 data. SSA expects the management information provided through the new system will help it more readily identify, track, and work with employers who have a large number of items with name/SSN mismatches that cannot be posted to a wage earner's record.

In response to Recommendation 2, SSA noted that, since TY 1996, it has identified employers with 100 or more items in suspense each TY and has sent this information to the ESLOs. ESLOs use this information to make contacts and provide reporting guidelines and services to employers. SSA also stated these listings included the employers the OIG identified, all of whom have been contacted. SSA also found that approximately one-third of the employers we identified as failing the threshold for 3 consecutive years met the 50 percent threshold standard in TY 1999, leaving the remainder to be force processed.

SSA addressed Recommendation 3 by noting the Agency provided a list of 100 employers to the IRS in August 2000. These employers represented those with the largest number of name/SSN match failures in consecutive years. IRS expressed interest in the listing but has not assessed penalties. SSA also pointed out that the IRS is the Federal agency responsible for levying and collecting taxes and has the authority and infrastructure to impose penalties, making it a better administrator of any necessary penalties.

Finally, SSA agreed with Recommendation 4 suggesting that it provide employers with improved EDCOR. SSA noted that, beginning in TY 2000, it plans to (1) change the 50 percent tolerance rate for accepting Annual Wage Reports with name/SSN errors to 95 percent; (2) strengthen the EDCOR notice to include stronger language about possible IRS penalties and to request that the employer correct the names/SSNs; and (3) increase the number of reported SSNs in the EDCOR from 250 to 500. After TY 2001, SSA plans to provide employers with a list of all name/SSN errors.

OFFICE OF THE INSPECTOR GENERAL RESPONSE

We commend SSA for its plans to improve correspondence with employers who submit incorrect names/SSNs in their wage reports. The new procedures noted in Recommendations 1 and 4 should provide employers better information when they attempt to resolve incorrect wage reports. However, we do not agree with SSA's new acceptance threshold and believe that correspondence alone does not effectively meet SSA's goal of reducing the size and growth of the ESF. In addition, SSA's responses to Recommendations 2 and 3 outline efforts to monitor chronic problem employers. Nonetheless, more needs to be done before SSA has an effective means of holding employers responsible for submitting incorrect wage reports.

We believe SSA's elimination of the 50 percent threshold and its replacement with a 95 percent threshold leaves the Agency open to greater reporting errors and more suspended wages. Unlike earlier TYs, employers can now submit wage reports where up to 95 percent of the names/SSNs are incorrect and expect nothing more than lengthy correspondence from SSA in return. Although the employer will get up to 500 name/SSN errors, the employer has the option of ignoring this correspondence with no follow-up by SSA. For this reason, we encourage SSA to reconsider eliminating the 50 percent threshold until it has sufficient time to determine the impact this policy change will have on the ESF.

SSA's response to Recommendation 2 does not consider that (1) SSA did not have a management information system in place to identify and monitor these chronic problem employers; (2) the improvement shown by these employers in TY 1999 may be due to the wage reports being rejected and resubmitted, a process SSA has decided to end; and (3) the remaining two-thirds of the chronic problem employers have not met the 50 percent threshold for 4 consecutive years.

SSA's response also mentions that ESLOs will continue to monitor these chronic problem employers. Additionally, SSA plans to provide ESLOs a list of employers with 100 or more items in the ESF for TY 1999. Nonetheless, we reported in our audit, *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items* (A-03-98-31009, September 1999), that this ESLO list can be as large as 7,000 employers. As such, we believe SSA should have its own management information system in place to identify such problems as employers who fail to meet the threshold for 4 consecutive years. Only with such a system in place can SSA refer a meaningful and manageable list of employers to the ESLOs. SSA may want to continue using the 50 percent threshold in its Earnings Data Warehouse evaluations to identify chronic problem employers, even if this threshold is not used for rejecting incoming wage reports.

Finally, SSA's response to Recommendation 3 illustrates some progress in assessing sanctions against chronic problem employers. SSA's cooperation with the IRS on the list of 100 employers is a good start. However, SSA has been warning employers about sanctions for several years without any real action by the IRS. Elevating this language without IRS follow-through will do nothing to improve the quality of wage reporting or reduce the ESF's size and growth. It is for this reason that we continue to encourage SSA to seek its own sanctioning authority if efforts with the IRS fail to produce results.

SSA also provided technical comments that we considered and incorporated, where appropriate. SSA's comments are included in Appendix A.

Appendices

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: March 22, 2001

Refer To: SIJ-3

To: James G. Huse, Jr.
Inspector General

From: William A. Halter *Wah*
Acting Commissioner of Social Security

Subject: Office of the Inspector General Draft Review of Force Processing Magnetic Media Wage Reports with Validation Problems (A-03-99-31001)—INFORMATION

Our comments on the subject draft review are attached. If your staff have any questions, they may contact Robert Berzanski on extension 52675.

Attachment:
SSA Response

COMMENTS OF THE SOCIAL SECURITY ADMINISTRATION (SSA) ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REVIEW OF FORCE PROCESSING MAGNETIC MEDIA WAGE REPORTS WITH VALIDATION PROBLEMS (A-03-99-31001)

We appreciate the opportunity to comment on the draft report. Following are our comments on the recommendations.

OIG Recommendation 1

Develop a management information (MI) system to identify employers who have their wage reports force processed and identify the number of times the wage reports are force processed.

Comment

A management information system to track force processing information is no longer necessary. Changes implemented effective with TY2000 are expected to virtually eliminate the need to force process wage reports.

Changes made for TY2000 included adjusting the validation threshold to accept more reports when first submitted. This is critical to ensure that we do not adversely affect those wage earners. Where the name and SSN match. Reports having mismatches in more than 95% of the wage items are returned to the employer. Past experience shows that reports in that range most likely have data and record format errors, such as fields presented in the wrong order, rather than true name and SSN mismatches. Bases on a review of the 1999 wage reports, it was projected that the change in the error threshold would result in less than 25 employers having their reports rejected. To date, 6,748 electronic reports have been submitted for TY2000, with only 4 reports having been rejected, none of which have yet required force processing.

Although the incidents of force processing will be minimal, we recognize that attention must still be directed to working with employers on improving the accuracy of wage reports. To that end we are continuing to send out educational correspondence (EDCOR) to employers who meet the threshold to be processed, but have more than 10 name/SSN mismatches. For TY2000, we have processed over 184,000 reports (electronic and paper), and have issued over 2700 EDCOR notices.

In addition, an Earnings Data Warehouse is in the development process which will enable the evaluation of employer filing trends, including errors, beginning with TY1998 data. Management information provided through the new system will help us more readily identify, track, and work with employers having a high rate of items with name/SSN mismatches which cannot be posted to a wage earner's record.

OIG Recommendation 2

ESLO should contact the 310 employers with wage reports processed during TY1996 through 1998 to educate them on wage reporting services available through SSA and encourage their participation at seminars and workshops.

Comment

Beginning with TY1996, SSA identified employers with high numbers of items in suspense. Listings of employers with 100 or more items in suspense for each TY are sent to the employer services liaison officers (ESLOs). These listings included the 310 employers identified by OIG, and these employers have been contacted. For TY1999, 101 of the 310 employers were able to meet the standards, leaving only 209 to be force processing. We continue to work with these employers to improve wage reporting.

The purpose of identifying these employers is to having the regions contact the employers to discuss reporting errors which occurred in the previous TY and to provide steps they could take to improve the accuracy of their future reports; e.g., use of EVS, participation in seminars and workshops, etc. Regional Referral lists for TY1997 and 1998 were also forwarded weekly from the start of both process years, with the same purpose. A single end of year Regional Referral list for TY1999 will be forwarded to the regions after the close of the process. ESLOs use the employer/submitter information from both lists to make contacts and provide reporting guidelines and services.

OIG Recommendation 3

Provide information on chronic problem employers to the Internal Revenue Service (IRS) to impose penalties. In the event the IRS fails to impose such penalties, SSA should consider a legislative proposal to establish its own sanctioning (penalty) authority.

Comment

We support having appropriate penalties imposed. In August 2000, SSA provided a list of 100 employers to IRS. These employers were identified as those with the largest number of name/SSN match failures in consecutive years. IRS' compliance division expressed initial interest in the list and later confirmed distribution to its local service centers, however to date SSA has no confirmation of penalty activities. The dialogue with IRS is ongoing.

With regard to the suggestion that SSA seek legislation to obtain authority to impose penalties on employers, we note that IRS, as the Federal agency responsible for levying and collecting taxes, has the authority and the infrastructure to impose penalties. We believe that IRS can do so more effectively than SSA.

OIG Recommendation 4

Provide employers with educational correspondence that lists the problem W-2s and explains why accurate names and Social Security numbers are important and possible penalties that may be imposed due to incorrect information.

Comment

We agree. As part of an Agency initiative to Accelerate Error Information to Employers, employers will receive information on all name/SSN combinations that fail validation. For TY 2000 the following changes were made to employer notices:

- The 50 percent tolerance for accepting Annual Wage Reports with name/SSN errors was changed to a 95 percent formatting edit.
- The educational correspondence (EDCOR) notice was strengthened to include stronger language about possible IRS penalties and to request that the employer make changes to incorrect name/SSNs. This revised notice is being sent on all reports with name/SSN errors, above the current EDCOR parameters.
- The number of SSNs provided in the notice has increased from 250 to 500.

The EDCOR notice for TY 2001 expands the informational content of the notice and includes explanations of why accurate names and SSNs are important and of potential IRS penalties.

SSA is planning on providing all name/SSN error information to employers in TYs beyond 2001.

Other Comments:

The report mainly concerns historical forced processing activity since SSA has modified its approach to Forced Processing. We eliminated the tolerances that were causing most of the situations resulting in Forced Processing and are moving to specifically advising the employer of all errors and those corrections should be submitted on Forms W2C. We believe that by providing more specific information the employer will be able to correct more of the erroneous Form W2s.

SSA seeks to post valid, error-free wage items to respective wage earners' records. Although SSA policy normally restricts force processing to correct employer reporting errors to one time per employer, SSA has force processed reports more than once per employer to reduce the chance for errors in wage earner records. SSA is vigilant in considering possible ways to reduce errors in these records.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Kimberly A. Byrd, Acting Director, Operational Audit Division, (205) 801-1605

Walter Bayer, Deputy Director (215) 597-4080

Acknowledgments

In addition to those named above:

Mary Dougherty, Senior Auditor

Patrick Kennedy, Computer Assisted Audit Techniques

Kimberly Beauchamp, Writer/Editor

For additional copies of this report, please contact Office of the Inspectors General's Public Affairs Specialist at (410) 966-5998. Refer to Common Identification Number A-03-99-31001.

DISTRIBUTION SCHEDULE

	<u>No. of Copies</u>
Commissioner of Social Security	1
Management Analysis and Audit Program Support Staff, OFAM	10
Inspector General	1
Assistant Inspector General for Investigations	1
Assistant Inspector General for Executive Operations	3
Assistant Inspector General for Audit	1
Deputy Assistant Inspector General for Audit	1
Director, Systems Audit Division	
Director, Financial Management and Performance Monitoring Audit Division	1
Director, Operational Audit Division	1
Director, Disability Program Audit Division	1
Director, Program Benefits Audit Division	1
Director, General Management Audit Division	
Issue Area Team Leaders	25
Income Maintenance Branch, Office of Management and Budget	1
Chairman, Committee on Ways and Means	1
Ranking Minority Member, Committee on Ways and Means	1
Chief of Staff, Committee on Ways and Means	1
Chairman, Subcommittee on Social Security	2
Ranking Minority Member, Subcommittee on Social Security	1
Majority Staff Director, Subcommittee on Social Security	2
Minority Staff Director, Subcommittee on Social Security	2
Chairman, Subcommittee on Human Resources	1
Ranking Minority Member, Subcommittee on Human Resources	
Chairman, Committee on Budget, House of Representatives	
Ranking Minority Member, Committee on Budget, House of Representatives	
Chairman, Committee on Government Reform and Oversight	
Ranking Minority Member, Committee on Government Reform and Oversight	
Chairman, Committee on Governmental Affairs	
Ranking Minority Member, Committee on Governmental Affairs	

Chairman, Committee on Appropriations, House of Representatives	1
Ranking Minority Member, Committee on Appropriations, House of Representatives	1
Chairman, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, House of Representatives	1
Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, House of Representatives	1
Chairman, Committee on Appropriations, U.S. Senate	1
Ranking Minority Member, Committee on Appropriations, U.S. Senate	1
Chairman, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate	1
Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate	1
Chairman, Committee on Finance	1
Ranking Minority Member, Committee on Finance	1
Chairman, Subcommittee on Social Security and Family Policy	1
Ranking Minority Member, Subcommittee on Social Security and Family Policy	1
Chairman, Senate Special Committee on Aging	1
Ranking Minority Member, Senate Special Committee on Aging	1
Vice Chairman, Subcommittee on Government Management Information and Technology	1
President, National Council of Social Security Management Associations, Incorporated	1
Treasurer, National Council of Social Security Management Associations, Incorporated	1
Social Security Advisory Board	1
AFGE General Committee	9
President, Federal Managers Association	1
Regional Public Affairs Officer	1
Total	97

Overview of the Office of the Inspector General

Office of Audit

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress, and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from the Agency, as well as conducting employee investigations within OIG. Finally, OEO administers OIG's public affairs, media, and interagency activities and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.