



Report Summary

Social Security Administration
Office of the Inspector General

Controls for the Annual Wage Reporting Process (Limited Distribution) (A-03-11-21162)

Our objectives were to determine the effectiveness of the (1) Social Security Administration's (SSA) controls for preventing erroneous wage reports from being processed as part of the Annual Wage Reporting (AWR) process; and (2) Office of the Chief Actuary's (OCACT) controls to ensure the reliability of earnings information for top earners.

SSA conducts numerous validity and integrity checks during the AWR process to ensure wages are properly posted to the Master Earnings File (MEF), since wages are the basis for determining an individual's eligibility for Social Security benefits. However, we found these controls needed to be improved because the controls were not effective in preventing the posting of \$32 billion in erroneous wages for Tax Year (TY) 2009 reported by two individuals. In addition, we found the controls to ensure the reliability of earnings information used to calculate the Average Wage Index (AWI) were not effective because the \$32 billion error caused the initial 2009 AWI to be 0.5 percent higher than it should have been. Once OCACT became aware of the erroneous wages, it quickly updated the AWI for 2009 and published it well before that AWI, or any value based on it, could have any effect. This action prevented individuals who became eligible for benefits in 2011 from receiving a benefit amount that was about 0.5 percent higher for life. We estimate that in 2011, SSA avoided overpaying about 1.4 to 3.5 million beneficiaries and their auxiliaries between \$40 and \$104 million in Social Security benefits. Although SSA was proactive by implementing new controls to prevent similar types of erroneous wages from being posted to the MEF and used in calculating the AWI, we found the new controls did not prevent the Agency from processing \$7 million in erroneous wages for TY 2010 reported by one of the individuals who submitted erroneous wages in TY 2009. Therefore, we believe the Agency should periodically re-examine the validity and integrity checks and modify them based on acceptable risk factors.

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