OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

SOCIAL SECURITY NUMBER MISUSE IN THE SERVICE, RESTAURANT, AND AGRICULTURE INDUSTRIES

APRIL 2005 A-08-05-25023

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.

SOCIAL SECURITY

MEMORANDUM

Date: April 29, 2005 Refer To:

To: The Commissioner

From: Inspector General

Subject: Social Security Number Misuse in the Service, Restaurant, and Agriculture Industries (A-08-05-25023)

OBJECTIVE

Our objective was to assess the potential for misuse of Social Security numbers (SSN) in the service, restaurant, and agriculture industries.[1]

BACKGROUND

Because SSA calculates future benefit payments based on the earnings an individual has accumulated over his or her lifetime, accuracy in recording those earnings is critical. SSA's ability to do so, however, greatly depends on employers and employees correctly reporting names and SSNs on Forms W-2, *Wage and Tax Statement*. SSA uses automated edits to match employees' names and SSNs with Agency records to ensure earnings are properly credited to the Master Earnings File. SSA places wage items that fail to match name and SSN records into its Earnings Suspense File (ESF).[2] As of October 2004, the ESF had accumulated about $463 billion in wages and 246 million wage items for Tax Years (TY) 1937 through 2002.[3]

In January 2001, we issued a Management Advisory Report, *Obstacles to Reducing Social Security Number Misuse in the Agriculture Industry* (A-08-99-41004), in which we assessed the potential for SSN misuse in the agriculture industry. The wage information in the previous report covered TYs 1996 through 1998. In the 2001 report, we determined that agriculture employers submitted thousands of wage items for which the employee's name and/or SSN did not match SSA records, resulting in millions of

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[1] For purposes of this review, we use the term "SSN misuse" throughout this report to refer to situations in which individuals used SSNs not issued to them by SSA to obtain employment. Furthermore, we define the service industry as being comprised of temporary labor and cleaning services employers.

[2] A wage item is an individual employee report prepared by employers on a Form W-2 after the close of the calendar year that shows wages paid and taxes withheld during the prior calendar year.

[3] TY 2002 data was not available when we began our analysis of ESF data for TYs 1999 through 2001.

dollars in suspended wages. Because of continuing congressional interest in the ESF and employers who continually have wage items going into the ESF, we elected to conduct a review that not only addressed employers in the agriculture[4] industry but included employers in the service and restaurant industries as well.[5]

To accomplish our objective, we obtained ESF data for TYs 1999 through 2001. This data represents the most complete tax data available at the start of our audit, given the inherent lag in posting annual wage information. We then identified the 100 employers in each of the service, restaurant, and agriculture industries who contributed the most wage items to the ESF for the 3-year period.[6] For the 300 employers selected, we analyzed ESF data to identify reporting irregularities, such as SSNs that SSA either had never issued or assigned to another individual. We also contacted selected employers and industry associations to obtain information on their experiences with employees who provided names and/or SSNs that did not match SSA's records. See Appendix B for additional information on our scope and methodology.

RESULTS OF REVIEW

Based on our analysis of ESF data and interviews with employers and industry associations, we believe SSN misuse in the service, restaurant, and agriculture industries is widespread. For example, for TYs 1999 through 2001, the 300 employers we reviewed submitted over 2.7 million wage items for which the employee's name and/or SSN did not match SSA records. These wage items represented $9.6 billion in suspended earnings over the 3-year period. In total, 14 percent of the wage items submitted by these 300 employers did not match names/SSNs contained in SSA files. For the 100 agriculture employers, about 48 percent of the wage items they submitted failed to match SSA records.

We identified various types of reporting irregularities, such as invalid, unassigned and duplicate SSNs and SSNs belonging to young children and deceased individuals. While we recognize there are legitimate reasons why a worker's name and SSN may not match SSA files, such as a legal name change, we believe the magnitude of incorrect wage reporting is indicative of SSN misuse. Employers and industry association representatives acknowledged that unauthorized noncitizens contribute to SSN misuse.[7]

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[4] In our January 2001 report, we reviewed ESF data for 20 agriculture employers in California and Florida for TYs 1996 through 1998. In the current audit, we focused on the 100 agriculture employers nationwide who contributed the most wage items to the ESF for TYs 1999 through 2001.

[5] SSA statistics show these three industries account for approximately one-half of all wage items in the ESF.

[6] While we recognize that some employers may report wages under more than one employer identification number, we did not combine ESF wage items posted under multiple employer identification numbers to determine the 100 employers in each industry.

[7] We use the term "unauthorized noncitizens" when referring to individuals who do not have permission from DHS to work in the United States but who are working—regardless of whether they entered the country legally or illegally.

To its credit, SSA recognizes the impact SSN misuse has on its programs, including growth of the ESF, and has taken steps to reduce such activity. However, SSA's ability to combat SSN misuse is hampered because employers do not routinely use the Agency's Employee Verification Service (EVS) and we are not aware of instances where IRS has imposed existing civil penalties against employers who submit inaccurate wage reports. Furthermore, privacy and disclosure issues (that is, the inability to routinely share information regarding employers who filed large numbers or percentages of wage statements with inaccurate SSNs) have limited collaborative efforts between SSA and DHS.

SSN MISUSE IN THE SERVICE, RESTAURANT, AND AGRICULTURE INDUSTRIES IS WIDESPREAD

Over 2.7 million (14 percent) of the 19.2 million wage items submitted by the 300 employers we reviewed did not match SSA records and were posted to the ESF, as shown in Table 1.

Table 1: Percentage of Wage Items Posted to the ESF for TYs 1999-2001

Industry	Number of W-2s Submitted	Number of ESF Items	Percent of W-2s Posted to the ESF	Median[8] Employer Percentage	Range of Employer Percentages	
					Low	High
Service	8,920,746	1,132,070	13	30	1	93
Restaurant	9,061,420	1,026,620	11	15	2	70
Agriculture	1,264,716	602,075	48	68	3	85
Totals	19,246,882	2,760,765	14	32	1	93

The percentage of wage items posted to the ESF over the 3-year period ranged from a low of 11 percent for the restaurant industry to a high of about 48 percent for the agriculture industry. Moreover, 263 (88 percent) of the 300 employers experienced increases in the percentage of suspended wage items from TYs 1999 through 2001.[9] The 37 employers who did not experience a percentage increase still contributed over 244,000 wage items and over $793 million to the ESF over the 3-year period.

[8] We calculated the median percentage for each industry by arranging the individual employer percentages in numerical order and averaging the two middle employers' percentages.

[9] An increase or decrease in suspended wage items for a particular employer could occur for a number of reasons, including a change in the number of employees or even the volume of items moved from the ESF to wage earners' records.

Types of Reporting Irregularities

During our review of ESF data for these 300 employers, we identified various types of reporting irregularities that we believe indicate SSN misuse. These irregularities include large numbers of invalid, unassigned, and duplicate SSNs and SSNs belonging to young children and deceased individuals (see Appendix C).[10] Our analysis showed the following.

- SSA had never assigned about 680,000 (25 percent) of the reported SSNs. Over 48,000 of these SSNs were not valid because they did not fall within the ranges of numbers SSA has authorized for use.

- The remaining 2 million (75 percent) SSNs were numbers SSA had assigned to someone else. About 9,500 of these SSNs belonged to young children, and about 5,400 belonged to deceased individuals.

Additional analysis of the ESF data showed that these employers submitted over 16,000 duplicate SSNs during each year of our audit period—meaning multiple employees used the same SSN to work for one employer. One restaurant employer submitted over 4,100 duplicate SSNs in TY 2001. That same year, an agriculture employer submitted over 900 duplicate SSNs, and an employer in the service industry submitted over 2,100.

While we recognize there are legitimate reasons why a worker's name and SSN may not match SSA's files, such as a name change, we believe the nature and extent of the reporting irregularities discussed above, and shown in Appendix C, indicate SSN misuse.

Unauthorized Noncitizen Workforce Is a Contributor to SSN Misuse

Several of the employers and industry associations we contacted acknowledged that unauthorized noncitizens contribute to SSN misuse. For example, one employer told us his restaurants and many others would be forced to close if they did not hire unauthorized noncitizens. A temporary labor service employer acknowledged that some of his former employees were unauthorized noncitizens who used invalid, unassigned, and deceased individuals' SSNs. Furthermore, the president of a large growers' association stated that farm labor contractors employ a large number of unauthorized noncitizens.

During our previous review of SSN misuse in the agriculture industry, SSA senior staff acknowledged the agriculture industry is the largest contributor to the ESF, and the intentional misuse of SSNs by unauthorized noncitizens has been a major contributor to

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[10] We reviewed the alerts for deceased individuals in our August 2002 audit *Effectiveness of the Social Security Administration's Earnings After Death Process* (A-03-01-11035). We found both indications of SSN misuse as well as opportunities for SSA to educate employers on the proper reporting of wages after an employee's death.

the ESF's growth.[11] SSA senior staff told us employers hire unauthorized workers because there is nothing to prevent them from doing so. That is, employers know SSA has no legal authority to levy fines and penalties, and they are not concerned about potential IRS sanctions.

In a March 2001 report, SSA noted that many suspended wage items involve the agriculture industry, which has transient employees who may not have work authorizations from DHS.[12] Other high turnover industries, such as restaurants and temporary service employers, have similar profiles.[13] In an August 2004 report, the Government Accountability Office (GAO) noted that Treasury's Inspector General for Tax Administration estimated that, in TY 2000, over 250,000 illegal aliens had wage statements with invalid SSNs.[14]

OBSTACLES HINDER SSA INITIATIVES TO REDUCE ITS VULNERABILITY TO SSN MISUSE

Despite a number of initiatives to reduce SSA's vulnerability to SSN misuse, significant obstacles remain. SSA's ability to combat SSN misuse is hampered because employers do not routinely use EVS and we are not aware of instances where IRS has imposed existing civil penalties against employers who submit inaccurate wage reports. Furthermore, privacy and disclosure issues have limited collaborative efforts between SSA and DHS.

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[11] *Obstacles to Reducing Social Security Number Misuse in the Agriculture Industry* (A-08-99-41004), January 2001.

[12] *SSA Key Initiative Plan and Schedule: Reduce Earnings Suspense File* (KI #46), March 15, 2001.

[13] *Management Advisory Report: Review of Service Industry Employer with Wage Reporting Problems* (A-03-00-10022), September 2001.

[14] *Tax Administration: IRS Needs to Consider Options for Revising Regulations to Increase the Accuracy of Social Security Numbers on Wage Statements* (GAO-04-712), August 2004.

SSA Outreach to Employers

SSA has initiated several efforts to educate employers about the importance of accurate wage reporting. SSA assists employers in verifying employees' names and SSNs through EVS. Employers can verify up to 5 names/SSNs by calling a toll-free telephone number, or they can fax up to 50 names/SSNs directly to an SSA field office. Employers who need to verify more than 50 names/SSNs can do so by submitting a list of the names/SSNs to SSA, using a process called EVS for registered users. In addition, SSA initiated the Social Security Number Verification Service (SSNVS) as a pilot project in March 2002. This on-line service allows a small number of pre-selected employers to verify employees' names/SSNs using their personal computers.[15] SSA senior staff told us the Agency plans to make SSNVS available to all employers in 2005.

SSA also provides assistance to employers through its Employer Service Liaison Officers (ESLO). SSA provides ESLOs in each of its regions nationwide to (1) answer employers' questions on wage reporting submissions; (2) encourage employers to use SSA's various programs, such as EVS; (3) conduct wage-reporting seminars, in partnership with the IRS; and (4) contact employers with significant suspended wage items in their regions.

To further assist SSA management in monitoring employer wage reporting, the Agency is developing an Earnings Data Warehouse to provide trend information on employer wage reporting. Knowing employer reporting trends could assist ESLOs in focusing their outreach efforts.[16]

Employers Do Not Routinely Use EVS

SSA made EVS available to employers to assist them in verifying employee names and SSNs with SSA records, thus reducing the incidents of incorrect wage reporting. However, six of the nine employers we interviewed did not routinely use EVS. Some employers stated they did not do so because SSA takes too long to respond to their requests. One employer told us he does not use EVS because SSA does not require that he do so. The six employers who stated they did not routinely use EVS experienced increases in the percentage of suspended wage items for TYs 1999 through 2001. In our September 2002 audit of the EVS system, we noted

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[15] Under SSNVS, an employer can either key in up to 10 names/SSNs at a time for immediate verification or submit a file containing the names/SSNs. The maximum number of SSNs allowed per file is 250,000. SSA provides a response to the employer the next business day.

[16] In our October 2004 report, *Employers with the Most Suspended Wage Items in the 5-Year Period 1997 through 2001* (A-03-03-13048), we recommended SSA track employer trends in the Earnings Data Warehouse, such as increases in the volume of wage items in suspense as well as the percent of an employer's payroll in the ESF.

that, of the 6.5 million employers in the United States, only 392 employers/third-party payroll companies used the EVS for registered users process between Calendar Years 1999 to 2001.[17]

We believe EVS is a useful tool for employers who are committed to improving the accuracy of their wage reporting. For example, a temporary staffing company who began using EVS in 2001 and SSNVS in 2003 experienced a significant decrease in the percentage of suspended wage items. The employer's Director of Human Resources stated his company sent out directives to its corporate offices nationwide instructing them not to refer individuals who did not have a valid SSN to a client company. Further, he told us his company places posters in its corporate offices (in various languages) to inform prospective employees that the company verifies applicants' names/SSNs before referral to a client company. The Director believes his company will continue to experience decreases in the number of suspended wage items because of its use of SSNVS and its commitment to only refer individuals who have valid SSNs.

The IRS Does Not Generally Penalize Employers

Because SSA has no legal authority to levy fines and penalties against employers who submit inaccurate wage reports, it relies on the IRS to enforce penalties for inaccurate wage reporting.[18] In our January 2001 report on the agriculture industry (see Appendix D), we noted that SSA senior staff did not believe employers had an incentive to submit accurate annual wage reports because the IRS rarely enforced existing penalties. SSA staff believed applying penalties would have a rippling effect on employers who consistently misreported wage information and serve as a deterrent to SSN misuse. Furthermore, SSA senior staff told us the Agency could provide the IRS with sufficient evidence to show an employer knew or should have known its employees' SSNs were incorrect. For example, a reasonable person should recognize it is not feasible for hundreds of workers to have the same or consecutively numbered SSNs.

In our January 2001 report, we also noted that SSA and the IRS held discussions to explore the enforcement of an existing penalty provision ($50 per error) for employers who repeatedly submit erroneous name and/or SSN information. To implement the penalty, SSA and the IRS agreed the Agencies must (1) jointly define the circumstances for applying penalties, (2) identify information needed from SSA for the IRS to support applying penalties, and (3) develop the proposed data flow and procedures to be followed.

According to an August 2004 GAO report, the IRS can identify and penalize employers who file wage statements with inaccurate SSNs but does not have a dedicated compliance program for doing so.[19] Additionally, GAO reported that IRS regulations

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[17] *The Social Security Administration's Employee Verification Service for Registered Employers,* (A-03-02-22008), September 2002.

[18] Internal Revenue Code Section 6721.

[19] *Tax Administration: IRS Needs to Consider Options for Revising Regulations to Increase the Accuracy of Social Security Numbers on Wage Statements* (GAO-04-712), August 2004.

permit the IRS to waive potential penalties if employers demonstrate a "reasonable cause" for the waiver.[20] In its report, GAO opined that the IRS' criteria for meeting the waiver are such that few, if any, employers are likely to be penalized for submitting inaccurate SSNs. In fact, GAO reported that the IRS could not provide any record that it had penalized an employer for inaccurate wage reporting. GAO also noted that IRS officials said they would consider changes, including requiring that employers verify SSNs provided by employees, as part of the "egregious" employer study.[21] Furthermore, GAO stated that, because the IRS believes some portion of inaccurate SSNs on wage statements is attributable to illegal aliens using invalid SSNs, it would likely consider the views of other potentially affected Federal agencies before changing its penalty program.

In our October 2004 report on employers with the most items in the ESF,[22] we noted that the IRS reviewed the employee records at 78 "egregious" employers to determine whether penalties should be assessed. Of the 78 employers, 50 were large employers with a high number of ESF items, and the other 28 employers were smaller companies with 93 percent or more of their payroll going into the ESF. In all 78 cases the IRS did not see penalty potential because the employers (1) used the information from the IRS Form W-4 (*Employee's Withholding Allowance Certificate*) to prepare the W-2 and (2) attempted to correct the W-2 information when SSA notified them that the information did not match Agency records.

We acknowledge SSA's efforts in working with the IRS to improve employer wage reporting. However, until the IRS requires that egregious employers verify employees' SSNs and holds them accountable for their actions through an effective employer penalty program, we do not believe employer wage reporting will significantly improve. We believe SSA could assist the IRS in its efforts to apply penalties by providing them with sufficient evidence to show an employer knew, or should have known, its employees' SSNs were incorrect. Because SSA relies on the IRS to enforce penalties for inaccurate wage reporting, we will provide Treasury's Inspector General for Tax Administration with a copy of this report under separate cover.

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[20] The Tax Reform Act of 1986 (Public Law 99-514), the Omnibus Budget Reconciliation Act of 1989 (Public Law 101-239), and Internal Revenue Code Section 6724(a) authorizes a "reasonable cause waiver." To qualify for a "reasonable cause waiver," employers must be able to demonstrate they solicited an SSN from each employee one to three times, depending on the circumstances, and that they used this information to complete the wage statements.

[21] For the purpose of this report, we defined "egregious" employers as those who filed large numbers or percentages of wage statements with inaccurate SSNs repeatedly over several years. On March 10, 2004, Mark E. Evers, Commissioner of the IRS, presented testimony (*Individual Taxpayer Identification Numbers and Social Security Number Matching)* before the House Ways and Means Subcommittee on Oversight and Subcommittee on Social Security regarding IRS' study of "egregious employers."

[22] *Employers with the Most Suspended Wage Items in the 5-Year Period 1997 through 2001* (A-03-03-13048), October 2004.

Limited Collaboration Between SSA and DHS

In our January 2001 report regarding SSN misuse in the agriculture industry, we reported that SSA and Immigration and Naturalization Service (INS)[23] senior staff told us collaboration between the two agencies had been limited. Although SSA recognized that unauthorized noncitizens contributed to SSN misuse and ESF growth, the Agency determined it could not share specific information with the INS regarding employers who experience high name and SSN error rates because of privacy and disclosure laws.

We recommended that SSA (1) collaborate with the INS to develop a better understanding of the extent immigration issues contribute to SSN misuse and growth of the ESF and (2) reevaluate its application of existing disclosure laws or seek legislative authority to remove barriers that would allow the Agency to share information regarding chronic problem employers with INS. SSA disagreed and stated its interpretation of privacy and disclosure issues is accurately applied and continues to provide sufficient authority to share information with other agencies in situations that are consistent with the purpose of the Social Security programs and SSA's disclosure policies.

Although SSA continues to coordinate with DHS on immigration issues, it does not routinely share information regarding egregious employers who submit inaccurate SSNs. In our opinion, any serious plan to address SSN misuse and growth of the ESF must allow SSA to share such information with DHS. We recognize SSA has no control over immigration policy; however, we are concerned that social, political, and economic issues associated with the enforcement of immigration laws impact SSA's ability to address SSN misuse. We believe SSA, Congress and other relevant stakeholders must recognize that, until the issue of SSN misuse by unauthorized noncitizens is addressed, the ESF will continue to grow. Accordingly, we encourage SSA to further this dialogue and attempt to negotiate a coordinated strategy. Because we believe intentional misuse of SSNs by unauthorized noncitizens has been a major contributor to the ESF's growth, we will provide a copy if this report under separate cover to the DHS Inspector General.

CONCLUSION AND RECOMMENDATIONS

We believe SSN misuse within the service, restaurant, and agriculture industries results in millions of dollars in wages that SSA cannot post to workers' earnings records. We recognize no single agency can adequately combat this problem. However, given the large number and/or percentage of wage statements employers submitted with inaccurate SSNs and the nature of the reporting irregularities, we believe SSA should take additional measures to ensure SSN integrity.

In previous reports, we made recommendations to help reduce the growth of the ESF. The report titles are listed in Appendix D. We continue to support the recommendations made in these reports and encourage SSA to continue its initiative to collaborate with

[23] On March 1, 2003, the responsibility for providing immigration-related services and benefits was transferred from INS to the U.S. Citizenship and Immigration Services, a bureau of DHS.

DHS to develop a better understanding of the extent that immigration issues contribute to SSN misuse and growth of the ESF. Furthermore, we continue to believe SSA should seek legislative authority to remove barriers that would allow the Agency to share information regarding chronic problem employers with DHS. In addition to the previously suggested actions, we recommend that SSA:

1. Continue to collaborate with IRS regarding wage reporting issues, including assisting the IRS in its development of an effective employer penalty program.

2. Encourage IRS to require employers who file large numbers or percentages of wage statements with inaccurate SSNs to verify employees' SSNs.

AGENCY COMMENTS AND OIG RESPONSE

We believe SSA's response and planned actions adequately address Recommendation 1. However, we believe SSA's response to Recommendation 2 does not effectively address our concern that employers who consistently submit erroneous or incorrect wage reports are not required to verify employees' SSNs.

SSA disagreed with Recommendation 2. SSA stated it will continue to offer and encourage all employers to use the free verification services for wage reporting. Furthermore, SSA stated it will defer to IRS as to whether specific employers should be required to use the verification services. While we acknowledge the IRS governs the wage reporting process, we continue to believe SSA should encourage the IRS to require employers who file large numbers or percentages of wage statements with inaccurate SSNs to verify employees' SSNs. As discussed in the report, the IRS is considering requiring egregious employers to verify employees' SSNs.

We did not intend to suggest that small companies who may occasionally submit a high percentage of incorrect wage reports should be required to verify employee's SSNs. Rather, our intent was to encourage SSA to urge the IRS to require larger employers

who consistently submit erroneous or incorrect wage reports to verify employee' SSNs. Until the IRS requires chronic problem employers to verify employees' SSNs and holds them accountable for their actions, we do not believe employer wage reporting will significantly improve. Accordingly, we encourage SSA to reconsider its response to Recommendation 2.

SSA also provided technical comments that we considered and incorporated, where appropriate. The full text of SSA's comments is included in Appendix E.

Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – Analysis of Employers' Earnings Suspense File Wage Items for Tax Years 1999-2001

APPENDIX D – Prior Office of the Inspector General and Government Accountability Office Reports

APPENDIX E – Agency Comments

APPENDIX F – OIG Contacts and Staff Acknowledgments

Acronyms

DHS	Department of Homeland Security
ESF	Earnings Suspense File
ESLO	Employer Service Liaison Officer
EVS	Employee Verification Service
GAO	Government Accountability Office
INS	Immigration and Naturalization Service
IRS	Internal Revenue Service
SSA	Social Security Administration
SSN	Social Security Number
SSNVS	Social Security Number Verification Service
TY	Tax Year

Scope and Methodology

To accomplish our objective, we performed the following steps.

- Reviewed Social Security Administration (SSA) policies and procedures and applicable federal laws and regulations regarding employer wage reporting.
- Obtained Earnings Suspense File (ESF) data for Tax Years (TY) 1999 through 2001 for all employers with at least 200 mismatched wage items.
- Identified the top 100 employers in the service, restaurant, and agriculture industries (total of 300 employers) who contributed the most wages to the ESF for the 3-year period.
- Calculated error rates for each employer by dividing the number of ESF wage items by the total number of W-2s submitted by the employer for each year and for the combined years.
- Contacted nine employers and five industry associations to obtain information on their experiences with employees who provide names/Social Security numbers (SSN) that do not match SSA's records. We limited our selection to employers and industry associations in California and Florida because these States account for a significant portion of the wage items posted to the ESF for the review period.
- Analyzed ESF data for each of the 300 employers. Specifically, we categorized the ESF wage items for each of the 3 years to include the following reporting irregularities: unassigned, invalid and duplicate SSNs and SSNs belonging to young children (under age 13) and deceased individuals.
- Reviewed prior SSA Office of the Inspector General and Government Accountability Office reports. See Appendix D for a list of the reports.

The SSA entity reviewed was the Office of Public Services and Operations Support under the Deputy Commissioner for Operations and the Office of Earnings, Enumeration and Administrative Systems under the Deputy Commissioner for Systems. This audit did not include an evaluation of SSA's internal controls over the wage reporting process, nor did we attempt to establish the reliability or accuracy of the wage data. However, we determined that ESF data are sufficiently reliable during a prior review.[1] We conducted our audit from May through September 2004 in accordance with generally accepted government auditing standards.

[1] *Performance Measure Review: Reliability of the Data Used to Measure the Accuracy of Earnings Posted* (A-03-00-10004), May 2001.

Analysis of Employers' Earnings Suspense File Wage Items for Tax Years 1999-2001

Types of Reporting Irregularities	Industry			
	Service	Restaurant	Agriculture	Totals
Social Security Numbers (SSN) with All Zeros or with Zeros as the Area, Group or Serial Numbers	7,715	9,936	12,618	30,269
SSNs with All 9's	14	1,155	58	1,227
SSNs with Area Number 666	289	228	264	781
SSNs with Area Numbers 773-999	4,997	9,294	1,263	15,554
Unassigned SSNs[1]	285,071	222,600	124,212	631,883
Valid SSNs Assigned to Young Children[2]	4,675	2,510	2,284	9,469
Valid SSNs Assigned to Deceased Individuals	2,749	1,549	1,054	5,352
Other Valid SSNs with Name Mismatches	826,560	779,348	460,322	2,066,230
Totals	1,132,070	1,026,620	602,075	2,760,765

[1] This category includes SSNs that the Social Security Administration (SSA) has never assigned.

[2] This category includes SSNs that SSA assigned to children under age 13.

Prior Office of the Inspector General and Government Accountability Office Reports

Report Identification Number	Report Title	Date Issued
A-03-03-13048	*Employers with the Most Suspended Wage Items in the 5-Year Period 1997 through 2001*	October 2004
GAO-04-712	*Tax Administration: Internal Revenue Service Needs to Consider Options for Revising Regulations to Increase the Accuracy of Social Security Numbers on Wage Statements*	August 2004
A-03-03-13026	*Follow-Up Review of Employers with the Most Suspended Wage Items*	October 2003
A-03-02-22008	*The Social Security Administration's Employee Verification Service for Registered Employers*	September 2002
A-03-01-11035	*Effectiveness of the Social Security Administration's Earnings After Death Process*	August 2002
A-03-01-30035	*Management Advisory Report: Recent Efforts to Reduce the Size and Growth of the Social Security Administration's Earnings Suspense File*	May 2002
A-03-00-10022	*Management Advisory Report: Review of Service Industry Employer with Wage Reporting Problems*	September 2001
A-03-00-10004	*Performance Measure Review: Reliability of the Data Used to Measure the Accuracy of Earnings Posted*	May 2001
A-08-99-41004	*Obstacles to Reducing Social Security Number Misuse in the Agricultural Industry*	January 2001
A-03-97-31003	*The Social Security Administration's Earnings Suspense File Tactical Plan and Efforts to Reduce the File's Growth and Size*	February 2000
A-03-98-31009	*Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items*	September 1999

Agency Comments

SOCIAL SECURITY

MEMORANDUM 34124-24-1253

Date: April 12, 2005 Refer To: S1J-3

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

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

Subject: Office of Inspector General (OIG) Draft Report, "Social Security Number Misuse in the Service, Restaurant, and Agriculture Industries" (A-08-05-25023)--INFORMATION

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

Please let us know if we can be of further assistance. Staff questions may be referred to Candace Skurnik, Director of the Audit Management and Liaison Staff, at extension 54636.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF INSPECTOR GENERAL (OIG) DRAFT REPORT, "SOCIAL SECURITY NUMBER MISUSE IN THE SERVICE, RESTAURANT, AND AGRICULTURE INDUSTRIES" (A-08-05-25023)

Thank you for the opportunity to review and comment on the draft report. We note that the Inspector General (IG) believes the Social Security Administration (SSA) should seek legislative authority to remove barriers that would allow the Agency to share information regarding chronic problems with the Department of Homeland Security (DHS), as mentioned in the OIG's 2001 report, "Obstacles to Reducing Social Security Number Misuse in the Agriculture Industry." The IG correctly notes that currently there are privacy and disclosure laws that prohibit SSA from sharing such tax return information with agencies other than the Internal Revenue Service (IRS).

SSA will continue to work with IRS regarding wage reporting issues; however, it is beyond our purview to advance legislation to amend the Internal Revenue Code in order to allow DHS access to tax return information.

Recommendation 1

SSA should continue to collaborate with IRS regarding wage reporting issues, including assisting the IRS in its development of an effective employer penalty program.

Comment

We agree. SSA will continue to collaborate with IRS regarding wage reporting issues, including assisting IRS in its efforts to improve the employer penalty program (if and when IRS chooses to modify its existing program).

SSA has had an interagency effort in place with IRS since 2004 to collaborate on issues of mutual concern. Since SSA has no legal authority to levy fines and penalties for inaccurate wage reporting, we must rely on IRS to do so.

We continue to encourage IRS to require employers who file large numbers of wage statements with inaccurate Social Security numbers (SSNs) to verify employees' SSNs by using SSA's Employee Verification Service (EVS). We believe that this process will improve the accuracy of our earnings records and limit the growth of the Earnings Suspense File.

Recommendation 2

SSA should encourage IRS to require employers who file large numbers or percentages of wage statements with inaccurate SSNs to verify employees' SSNs.

Comment

We disagree. Both SSA and IRS struggle with the issue of wage statements with inaccurate SSNs. In many cases, the employers are simply reporting the best information they have in their records. Furthermore, in the selected industries, turnover is very high and employment is for only short periods of time. Many of these workers move on to other jobs prior to the employer recognizing the inaccurate information. SSA's verification services are valuable tools for improving wage reporting and SSA will continue to offer and encourage all employers to use the free verification services for wage reporting purposes. However, since the wage reporting process is ultimately governed by IRS, we defer to IRS as to whether specific employers should be required to use the verification services.

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