

GAO

Report to the Chairman,
Committee on Ways and Means,
House of Representatives

August 1990

SOCIAL SECURITY

IRS Data Can Help SSA Credit More Wages





United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-240598

August 31, 1990

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Each year, employers report to the Social Security Administration (SSA) the amount of wages (earnings) paid to their employees on Form W-2, so that SSA can credit the wages to each worker's social security account. Proper credit of wages is important because a worker's earnings determine both his or her eligibility for and amount of future social security benefits. SSA records each employee's earnings after checking whether it has established an account with that person's name and social security number (SSN). If the identifying information on Form W-2 cannot be matched to an established (valid) account, SSA records the earnings in a suspense file. These wage reports remain in the suspense file until crediting to a valid account is possible.

In March 1989, you expressed concern over whether SSA was doing all that it could to see that employees were receiving credit for their wages. You asked specifically whether SSA could reduce the size of its suspense file by using information developed by the Internal Revenue Service (IRS) for tax compliance purposes. You also asked for statistics on the growth of SSA's suspense file over recent years.

Results in Brief

As of June 1989, about 178 million wage reports worth \$138.4 billion of uncredited earnings were recorded in SSA's suspense file. It had grown by 24.2 million reports (a 16-percent increase) and \$58.2 billion (a 73-percent increase) over the past 5 years (see app. I).

SSA could reduce the size of the suspense file and credit more workers' wages by using independently developed IRS data to identify to whom the uncredited earnings belong. For tax year 1987, IRS officials believe their data identified taxpayers for about 600,000 uncredited wage reports, worth about \$4.2 billion in uncredited earnings. By matching IRS resolutions to SSA's suspense file, we found that SSA had not resolved 345,950 of these uncredited wage reports worth \$2.1 billion.

SSA could use such data immediately to record the earnings on as many as 120,000 uncredited wage reports, representing \$762 million. The IRS

people to whom it issued each SSN. Reports that pass this validation check—that is, the name and SSN correspond with those in an existing account—are considered valid and can be credited. Reports that fail are identified as invalid.

SSA records the invalid reports in its suspense file unless correcting information is provided through one of various internal processing actions (see app. III). Of the 250 million wage reports received for tax year 1987, SSA placed about 5.8 million (involving social security wages of \$17.3 billion) in the suspense file.

There are various reasons wage reports do not pass the SSA validation control check. For example:

- SSNs may not match because the employee has reported an incorrect number to an employer or the employer has incorrectly recorded the employee's SSN. Sometimes, employees who do not have their own SSN use someone else's or give a fictitious one to the employer. In other cases, the wage report does not include the SSN.
- Names may not match because the employer and/or employee spelled the name differently than SSA has recorded it in its master file. Also, frequently individuals who legally change their names do not notify SSA; thus the name on the wage report differs from that on the SSA account.

SSA uses a variety of processes in an attempt to identify the people to whom these invalid wage reports belong so it can credit the earnings to their social security account. Resolution processes include writing the person at the address provided on the invalid wage report, contacting employers with a high percentage of discrepant wage reports, and periodically comparing SSA's name and SSN control file against the suspense file to see if updated information in the control file will permit the posting of uncredited wages (see app. III). SSA continues these resolution processes for at least 5 years before archiving a wage report as unresolved.

These processes resolve several million of the reports recorded in the suspense file each year. But despite their success, the suspense file has continued to grow.

In February 1989, because of concerns about the escalation of uncredited earnings in the suspense file, the Commissioner of Social Security established a task force to suggest ways to increase the rate of invalid wage report resolutions. Composed of representatives from

IRS Data Can Help SSA Resolve More Uncredited Earnings Reports

As of June 1989, IRS had resolved 345,950 tax year 1987 wage reports, representing \$2.1 billion in wages, that SSA continued to carry as unresolved in its suspense file. Not all of IRS's resolutions will pass SSA's validation check (see pp. 2-3) for crediting wages to individual accounts. However, many could be directly credited and others could be credited after additional follow-up by SSA.

About 120,000 of the IRS resolutions matched valid SSA accounts, and we believe SSA could directly credit them. These resolved wage reports amounted to about \$762 million in uncredited tax year 1987 earnings (see table 1). For over 53,000 of these resolutions, there was exact agreement between the identity information on the invalid W-2 and on a filed tax return.

For another 33,700 wage reports, there was agreement except for minor variances. In their resolution processes, both agencies manipulate the identity information, but in different ways, to see if the mismatch can be resolved. (See app. III for a discussion of SSA's single select and operation 30 processes.)

**Table 1: IRS Wage Report Resolutions by
Nature of Match to Tax Returns**

Dollars in thousands

Nature of match	Resolutions undergoing SSA validation			
	Passing		Not passing	
	No.	Amount	No.	Amount
Exact	53,301	\$574,593	189,710	\$1,168,270
Minor variances	33,712	103,912	16,820	56,290
Missing information	32,557	83,017	14,718	68,442
Other	0	0	5,132	13,850
Total	119,570	\$761,522	226,380	\$1,306,852

Source: GAO calculations based on comparison of IRS 1987 resolution tapes and the SSA suspense file as of June 1989.

The remaining 32,557 "valid" wage reports resolved by IRS did not contain certain identity information when submitted to SSA. IRS was able to obtain this information through its resolution process.

IRS's matching of the remaining 226,380 wage reports was to SSN and name combinations that did not agree with SSA's official SSN and name control file. These resolutions are classified as "invalid" by SSA. However, the resolutions indicate that IRS identified persons using identity information on a tax return that is the same or very similar to identity information on the invalid W-2. These resolutions could represent

SSA also agreed with our recommendation and said it has initiated action to accomplish the data exchange. SSA said that proposed revisions to the IRS/SSA memorandum of understanding on combined annual wage reporting, expected to be effective in August 1990, call for the agencies to devise ways to help each other with name and SSN matching problems. With this provision in effect, SSA plans to begin discussions with IRS to focus on the specific nature of the data exchanges needed to accomplish our recommendation.

As agreed with your office, we are sending copies of this report to IRS, SSA, and other interested parties. We also will make copies available to others upon request. Please call me on (202) 275-5365 if you or your staff have any questions. Other major contributors to this report are listed in appendix VI.

Sincerely yours,



Gregory J. McDonald
Associate Director, Income Security
Issues

Abbreviations

IRS	Internal Revenue Service
MEF	master earnings file
NERP	national electronic reinstatement project
SSA	Social Security Administration
SSN	social security number

Scope and Methodology

To compare IRS's and SSA's processes for invalid wage report resolutions with SSA's suspense file, we interviewed SSA and IRS officials to determine (1) how invalid wage reports are identified and processed, (2) the procedures followed and efforts made to resolve invalid wage reports, and (3) the uses made of both the resolved and unresolved wage reports. We then obtained a computer tape of IRS resolutions for tax year 1987 wage reports and matched it to SSA's suspense file as of June 1989. The purpose was to identify tax year 1987 wage reports resolved by IRS that SSA continued to carry in its suspense file.¹

To determine the growth in SSA's suspense file, we obtained SSA reports and calculated the yearly net increase in the number and dollar value of wage reports in the suspense file from June 1985 through June 1989. SSA agreed to study the usefulness of IRS's resolution process as a means to resolve more uncredited earnings. We did not attempt to quantify the number of additional resolutions that SSA could make using IRS information, as this would have been too costly.

We conducted our review between April and December 1989, primarily at IRS and SSA headquarters, in accordance with generally accepted government auditing standards.

¹At the time of our review, IRS had not completed its 1988 tax year resolution process.

They result in about 2.5 million reports being credited to MEF from the suspense file each year.

Decentralized Correspondence Operation

When a wage report is placed in the suspense file, SSA sends a letter to the employee identified by the wage report explaining why it cannot process the report. The employee is asked to send in information that would resolve the problem. Annually, SSA resolves about 1.5 million wage reports as a result of its decentralized correspondence operation.

Ferret Operation

If the correspondence was undeliverable or there is no reply from the employee through the decentralized correspondence operation, SSA subjects the wage report to the "ferret" operation. This operation matches identity information from IRS's master data file with comparable information on the invalid wage report to identify information that could resolve the discrepancy. About 16,000 wage reports are resolved annually by means of the ferret operation. It parallels IRS's wage report resolution process in that both agencies use the same data bases—the IRS individual master file and the invalid wage reports.

Sweep Operation

The sweep operation compares the suspense file with SSA's updated SSN and name control file to see if any recent name changes have been reported to SSA that would permit wage reports in the suspense file to be credited to MEF. This operation resolves about 300,000 invalid reports each time it is run, about every 18 to 24 months.

National Electronic Reinstatement Project

NERP involves preparing a computer-generated listing of suspense file wage reports by the employer identification number. To resolve uncredited items, SSA's regional office staff contacts employers sending SSA large numbers of invalid wage reports. The NERP operation has resulted in more than 5,000 employers being contacted since September 1985. Since its inception, it has resulted in more than 1.5 million invalid reports worth \$6.3 billion being resolved.

Operation 30

Operation 30 is a manual effort performed at SSA's three data operations centers. Using video display terminals, clerical personnel compare sections of the suspense file with sections of the official SSN and name file. They check for common nicknames and other obvious mistakes in the spelling of names. Operation 30 involves judgment decisions, although

Comments From the Social Security Administration

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



THE COMMISSIONER OF SOCIAL SECURITY
BALTIMORE, MARYLAND 21235

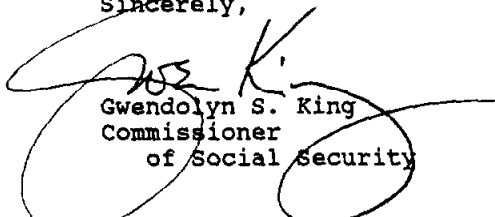
JUL 17 1990

Mr. Joseph F. Delfico
Director
Income Security Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Delfico:

Enclosed for your information is our response to the U.S. General Accounting Office's draft report, "Social Security: IRS Data Can Help SSA Credit More Wages." Please let us know if we can be of further assistance.

Sincerely,



Gwendolyn S. King
Commissioner
of Social Security

Enclosure

revision. If the sample has acceptable accuracy, the entire magnetic media file is processed through initial validation.

Now on p. 12.

Page 17, paragraph 1 and Page 18, paragraph 2

These paragraphs include a reference to the Possible Additional Reinstatement (PAR) Operation. PAR no longer exists as a process. In November 1989, its functions were incorporated into the current Suspense/Reinstate process. Additionally, it should be made clear that further review of the Suspense File for prior year reports is limited to reports from the same (current) employer.

Now on p. 13.

Page 18, paragraph 1, "Ferret Operation"

A statement should be added to note that the Ferret Operation applies to undeliverables as well as no response cases.

Now on p. 13.

Page 19, paragraph 2, "National Electronic Reinstatement Project (NERP)"

This section should be updated to show that the NERP has resulted in 1.5 million items being reinstated in the amount of \$6.3 billion.

Comments From the Department of the Treasury



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JUL 5 1990

Mr. Joseph F. Delfico
Director, Income Security Issues
Human Resources Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Delfico:

We have reviewed your recent draft report entitled "Social Security: IRS Data Can Help SSA to Credit More Wages". We agree with the report's recommendation that the Commissioners of SSA and IRS amend their existing agreement that governs the exchange and use of tax information to provide for the routine sharing of IRS' wage report resolution data.

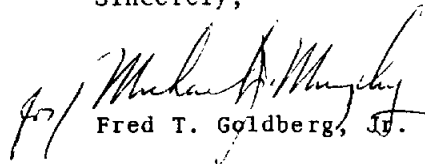
With respect to the recommendation for sharing resolution data, we suggest that GAO include qualifying language that information should be shared only to the extent permitted by IRC 6103(1)(5), in conjunction with Section 232 of the Social Security Act (42 USC 432).

We will work with SSA to define the specifics of the information to be exchanged in a revised agreement.

Thank you for the opportunity to review this report.

Best regards.

Sincerely,


Fred T. Goldberg, Jr.

Ordering Information

The first five copies of each GAO report are free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20877**

Orders may also be placed by calling (202) 275-6241.

Major Contributors to This Report

**Human Resources
Division,
Washington, D.C.**

Roland H. Miller III, Assistant Director, (301) 965-8925
William J. Staab, Assignment Manager

**Philadelphia Regional
Office**

Thomas J. Dougherty, Evaluator-in-Charge
Wayne J. Turowski, Technical Assistance

**Appendix IV
Comments From the Social Security
Administration**

The following is GAO's comment on SSA's letter of July 17, 1990.

GAO Comment

1. SSA's other comments concern various changes in its processes or factual data that occurred after the conclusion of our field work. In each case we adjusted the report to reflect this current information.

Appendix IV
Comments From the Social Security
Administration

COMMENTS OF THE SOCIAL SECURITY ADMINISTRATION ON THE GENERAL
ACCOUNTING OFFICE DRAFT REPORT, "SOCIAL SECURITY: IRS DATA CAN
HELP SSA CREDIT MORE WAGES"

General Accounting Office (GAO) Recommendation

The Commissioners of the Social Security Administration (SSA) and Internal Revenue Service (IRS) should amend their existing agreement that governs the exchange and use of tax information to provide for the routine sharing of IRS' wage report resolution data.

SSA Comment

We agree. SSA has initiated action to accomplish the suggested data exchange. Proposed revisions to the IRS/SSA memorandum of understanding (MOU) on combined annual wage reporting call for IRS and SSA to devise ways each agency can help the other with name/Social Security number (SSN) matching problems. We anticipate that these revisions will be formally incorporated in the MOU by August 1990. Discussions between IRS and SSA could then begin to focus on the specific nature of these data exchanges.

Other Comments

The comments below are being provided to improve the technical accuracy of this report.

See comment 1.

Now on p. 3.

Page 6, line 1

The report states, "These processes take up to five years to complete before SSA decides that a wage report cannot be resolved and stops its resolution initiatives." As currently stated, this sentence seems to give the impression that SSA's processes are slow. We believe this statement should be revised to reflect the fact that SSA's efforts continue for at least five years.

Now on p. 6.

Page 11, paragraph 2

The last sentence of this paragraph should be revised to reflect the fact that the Suspense File Workgroup expects to issue its report in August 1990 rather than May 1990.

Now on p. 12.

Page 16, paragraph 2

This paragraph should be expanded to note that all items that fail validation are screened against the Suspense/Reinstate File to see if the same name and SSN were previously incorrectly reported and subsequently corrected. Also, only a sample of wage reports from each magnetic media file is run through initial verification to see if it should be returned to the employer for

Appendix III
SSA's Wage Report Resolution Processes

defined procedures must be followed. About 575,000 invalid reports are resolved annually as a result.

It usually takes about 5 years to complete all of the above operations on wage reports recorded in the suspense file for a particular tax year. When it completes them, SSA considers that all reasonable efforts to resolve the invalid reports have been made. It then undertakes no further initiatives and archives all invalid wage reports. Any resolution from the archive file is normally done at the initiative of the person claiming a benefit.

SSA's Wage Report Resolution Processes

Each year, SSA receives hundreds of millions of wage reports to be credited to U.S. workers' social security accounts. About 94 percent on average pass the initial validation screening, SSA estimates. SSA credits these immediately to individual worker accounts in its master earnings file (MEF). Half of the reports that initially fail validation are corrected by one of several efforts. SSA records the remainder (about 3 percent) in its suspense file.

SSA rekeys or rescans wage reports submitted as paper documents that fail initial validation. This is done to correct any errors resulting from SSA's data-transcribing or optical-scanning operations.

Wage reports received on magnetic media are treated somewhat differently. SSA screens a sample of wage reports from each media file report received to see if there are validation problems. If the sample has an acceptable accuracy rate, the entire file is processed through validation; otherwise, it is returned to the employer for revision.

All items that continue to fail validation are then screened against the suspense/reinstate file to see if the same name and SSN were previously incorrectly reported by the same employer and subsequently corrected. If so, corrections are made and the wages are credited to MEF. Reprocessing of the corrected and resubmitted wage reports results in an additional 1 percent of wage reports being credited to MEF.

Wage reports that still fail validation are then subjected to SSA's "single select" process. Through computer manipulation of the reported SSN digits, SSA attempts to identify and correct transposition errors related to incorrect reporting of a single digit. Between 60 and 90 permutations are performed on each SSN in an attempt to match the wage report to SSA's official SSN and name record. The single select process results in validation of about another 2 percent of the wage reports and their crediting to MEF.

The remaining 3 percent of wage reports (about 6 million annually) are classified as invalid and recorded in SSA's suspense file of uncredited earnings. Once this is done, SSA takes a variety of actions in an attempt to resolve the problems with the wage report and reduce the number of reports in the suspense file. These actions, which occur over about a 5-year period, include the (1) decentralized correspondence operation, (2) ferret operation, (3) sweep operation, (4) national electronic reinstatement project (NERP), and (5) operation 30. All are described below.

Growth of SSA's Suspense File (1984-89)

As of June	Size and value of suspense file			
	Reports		Earnings	
	Number (millions)	Growth rate (percent)	Value (millions)	Growth rate (percent)
1984	153.9	•	\$80,212	•
1985	156.5	1.7	89,399	11.8
1986	161.0	2.9	96,198	7.6
1987	166.5	3.4	108,971	13.3
1988	172.6	3.7	127,871	17.3
1989	178.1	3.2	138,435	8.3
Net increase	24.2	15.7	58,223	72.6

Contents

Letter		1
Appendix I Growth of SSA's Suspense File (1984-89)		10
Appendix II Scope and Methodology		11
Appendix III SSA's Wage Report Resolution Processes	Decentralized Correspondence Operation Ferret Operation Sweep Operation National Electronic Reinstatement Project Operation 30	12 13 13 13 13 13
Appendix IV Comments From the Social Security Administration		15
Appendix V Comments From the Department of the Treasury		19
Appendix VI Major Contributors to This Report		20
Table	Table 1: IRS Wage Report Resolutions by Nature of Match to Tax Returns	5

people who had not reported name changes to SSA or who had given their employers incorrect SSNs.

Of particular note in this group are 189,000 resolutions that represent exact matches with tax return information. At a minimum, these resolutions provide an opportunity for SSA to take additional steps. For example, SSA could contact these people to request their assistance in resolving the problem with wage reports or send them a copy of their earnings statement. The latter would show that wages earned in certain tax years had not been credited.

Because of SSA's ongoing efforts to reduce its suspense file, we shared the results of our work with the suspense file reduction task force. Saying that the IRS resolutions looked like a promising tool, the task force manager indicated it would recommend, in its report to the Commissioner, that SSA pursue obtaining and using the IRS resolution data. The report was expected to be issued in August 1990.

Conclusions

The IRS wage report resolution data constitute a tool that SSA could use in its efforts to properly credit earnings to valid social security accounts and reduce the size of its suspense file. About one-third of the resolutions could be almost immediately credited to valid accounts with little cost to SSA, IRS data indicate. The remaining resolutions would require further research efforts, but the IRS data should provide SSA with a good starting point. Accordingly, SSA should obtain the IRS information.

Recommendation to the Commissioners of Social Security and Internal Revenue

We recommend that the Commissioners of Social Security and the Internal Revenue amend their existing agreement governing the exchange and use of tax information to provide for the routine sharing of IRS's wage report resolution data.

Agency Comments

SSA and IRS commented on this report in letters dated July 17 and 5, respectively (see apps. IV and V). IRS agreed with our recommendation, but emphasized that data can be shared only to the extent permitted by law. IRS said it will work with SSA to define the specifics of the information to be exchanged in a revised information exchange agreement.

various SSA operating units, the task force worked throughout 1989 to consider various proposals and evaluate whether new procedures should be adopted or existing ones modified. Because the task force goals paralleled the concerns of the House Ways and Means Committee—increased crediting of wages—we worked closely with the task force and shared with it the overall results of our comparison of IRS and SSA data.

IRS Resolves Invalid Wage Reports Independent of SSA

IRS processing of wage report information begins with its receipt of W-2 wage information from SSA. The information arrives in weekly batches primarily between February and July. Wage reports that SSA has classified as valid are processed directly to IRS's taxpayer compliance files. Invalid reports are processed through IRS's computerized resolution routine, designed to identify taxpayers to whom these earnings belong. If resolved, the invalid reports are then processed to the compliance files, which later will be matched against tax returns.

IRS's resolution routine is independent of SSA's efforts. It involves computer matching of identity information that is reported on tax returns with comparable information on the invalid wage reports. IRS considers an invalid wage report resolved if there is an exact or close match of identity information with a filed tax return. IRS then determines whether its resolution is a valid or invalid name and SSN combination relative to SSA's records. The IRS's resolution requires special processing for tax administration purposes if there is not a valid SSA match. But even if the comparison indicates the resolution is invalid relative to SSA's records, IRS considers the case resolved because it has found a person who filed a tax return using the same or very similar identity information. IRS believes many of its invalid resolutions represent people who changed their names but did not notify SSA of the change.

Although IRS formerly provided information on its resolutions to SSA, it no longer does so. Because IRS provided only its final resolutions, SSA could not associate IRS's resolution with the original invalid wage reports that were resolved. IRS since has changed its resolution process so as to link each resolution to the original invalid report.

“resolutions” identified name and SSN combinations that represented valid social security accounts.

The resolutions for the remaining 226,000 wage reports probably could not be credited to valid social security accounts without further SSA research. However, for these reports IRS has identified a person with similar identity information on his or her tax return as on the uncredited wage report. These resolutions could represent people who changed their name through marriage or divorce but never reported the change to SSA. At a minimum, they offer SSA possible leads to resolve uncredited wage reports.

Scope and Methodology

To address your concerns, we interviewed IRS and SSA officials involved with processing employee wage reports. We also obtained a computer tape of IRS resolutions and matched it to SSA’s suspense file as of June 1989. Our work was performed at SSA and IRS headquarters during 1989 in accordance with generally accepted government auditing standards. See appendix II for further information on our scope and methodology.

Background

Both SSA and IRS need accurate earnings information to administer their programs. SSA uses earnings information to determine social security program eligibility and benefit amounts. These are based on a combination of total social security earnings and years of social security coverage. IRS uses earnings information to verify income reported on individual tax returns and identify people who either underreported or failed to file a tax return.

How SSA Records Workers’ Wages

Each year, by the end of February, employers send annual wage reports on Form W-2 to SSA for each of their employees. This form identifies the employee by name, address, and SSN; it also shows the employee’s total wages, wages subject to the social security tax, and amounts withheld for local, state, and federal taxes. SSA processes the wage reports and credits earnings subject to the social security tax to individual earnings accounts.

For about 3 percent of the hundreds of millions of wage reports it processes throughout the year, SSA encounters problems in identifying the correct social security account. To assure that reported earnings are credited to valid social security accounts, SSA routinely compares the name and SSN reported on Form W-2 with its control file that identifies

