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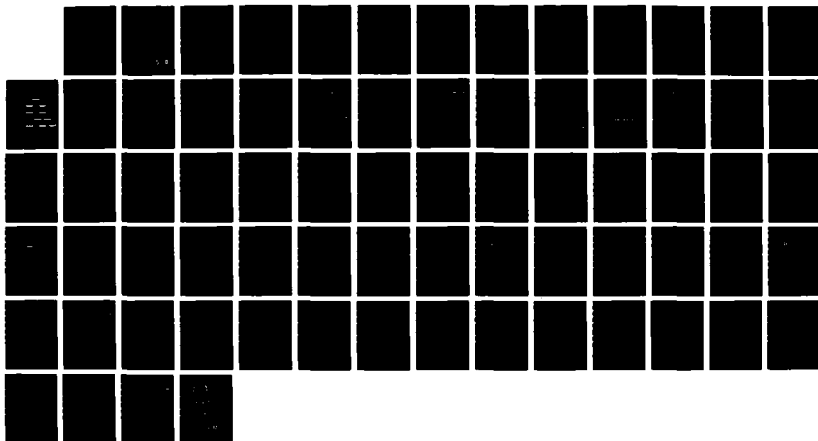
SOCIAL SECURITY: MORE MUST BE DONE TO CREDIT EARNINGS
TO INDIVIDUALS' ACCOUNTS(U) GENERAL ACCOUNTING OFFICE
WASHINGTON DC HUMAN RESOURCES DIV SEP 87 GAO/HRD-87-52

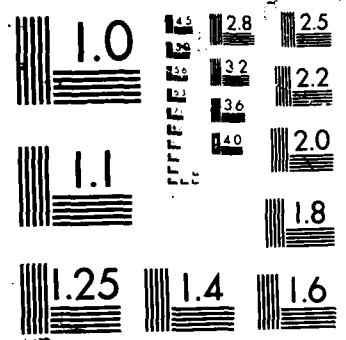
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United States General Accounting Office
Report to Congressional Committees

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September 1987

SOCIAL SECURITY

More Must Be Done to Credit Earnings to Individuals' Accounts

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

Human Resources Division

B-226671

September 18, 1987

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

The Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate

This report discusses a longstanding operating problem of the Social Security Administration and the Internal Revenue Service: reconciling the differences between them in employer reports of employee earnings made separately to the two agencies. To ensure the timely reconciliation of differences between the two agencies in employer reported earnings, the report (1) includes recommendations to the Secretaries of the Treasury and Health and Human Services and (2) suggests several matters that the Congress should consider.

We made our review according to the Budget and Accounting Act, 1921 (31 U.S.C. 712), and the Accounting and Auditing Act, 1950 (31 U.S.C. 3511).

We are sending copies of this report to the Secretaries of the Treasury and Health and Human Services and the chairmen of congressional committees and subcommittees with oversight responsibility for the Social Security Administration and the Internal Revenue Service. Copies are also being sent to the Commissioners of Social Security and Internal Revenue and the Director of the Office of Management and Budget.

Richard L. Fogel
Assistant Comptroller General



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Executive Summary

Purpose

Individuals' Social Security benefits and the amount of tax money the Social Security trust funds are entitled to are based on the earnings recorded in individuals' Social Security accounts. If the Social Security Administration (SSA) fails to record all or part of an individual's annual earnings, the Social Security benefits it calculates for such individuals could be too low and the trust funds would not be entitled to all the tax revenue.

For this report, GAO sought to determine (1) the effectiveness of the process for identifying and resolving instances where employers may not have reported all or part of employees' earnings and (2) the effect any uncredited earnings might have on individuals' Social Security benefits and the trust funds.

Background

Employers report employees' earnings to SSA and the Internal Revenue Service (IRS) at different times and for different purposes. IRS compares the annual total employers reported to SSA with the total of the quarterly earnings employers reported to IRS. Subsequently, IRS tells SSA which employers may not have reported any or all earnings to SSA. Contacts with the employers are frequently necessary to determine whether all earnings were reported. If SSA finds that it has not recorded some employees' earnings, it corrects those accounts.

Although the amount of tax money SSA is entitled to is based on annual earnings recorded in individuals' accounts, SSA receives tax revenues based on quarterly earnings amounts employers report to IRS. SSA considers these earnings amounts to be "interim estimates" of what it will eventually record.

Results in Brief

Slow progress by SSA and IRS in reconciling differences in employee earnings has resulted in (1) Social Security beneficiaries receiving less in benefits than they were entitled to and (2) the Social Security trust funds' retaining \$7.7 billion in tax money, as of March 1987, related to earnings not recorded in Social Security's records.

From 1978 through 1984 (data after 1984 are preliminary), SSA recorded about \$58.5 billion less in employees' earnings than IRS. Although this represents only about 0.8 of 1 percent of all earnings that SSA recorded during this period and seems relatively small, the impact on those affected by uncredited earnings can be significant. A nonprojectable sample of current beneficiaries reviewed by GAO showed that affected

beneficiaries lost nearly \$17 a month. SSA or IRS needs to contact about 2.5 million employers to try to determine whether SSA did not record some earnings for their employees. Further, although the actual number of individuals affected is unknown, GAO estimates that the records of 9.7 million individuals could have uncredited earnings.

This backlog of unreconciled employers' earnings reports resulted from SSA's failure to take action once IRS said its resources precluded the reconciling of all reports. The contributing factors were SSA's organizational structure, which diffuses responsibility; the absence of leadership and a financial management focal point and perspective; and pressures to reduce staff.

Principal Findings

SSA and IRS Have Not Resolved Differences

SSA and IRS have not worked well together to resolve identified differences in employers' earnings reports. By January 1986, unresolved differences in employee earnings amounts involved 3.5 million employers' reports for 1978-83. Although IRS had agreed to resolve such differences, by 1980 it had concluded that it was unable to. Each year IRS has left unresolved at least 500,000 reports. Disagreement between SSA organizational components and a reluctance to commit additional resources to address the problem permitted the unresolved reports to increase. In early 1986, after maintaining since 1978 that resolving the differences was IRS's responsibility, SSA began attempting to resolve reports that IRS did not. As of October 1986, SSA had more than 3 million reports that had not been resolved.

Contacts With Employers Show Success and Problems

SSA's contacts with employers to resolve the many report differences that IRS did not resolve resulted in recording about \$3.6 billion in additional earnings for about 700,000 employees. However, about half the employers SSA attempted to contact did not respond to SSA's request for information. Further, neither SSA nor IRS has compiled sufficient data from contacts with employers to identify the causes of differences and the actions necessary to prevent or reduce future occurrences.

Uncredited Earnings Affect Benefits

GAO, using a selection of current beneficiaries whom an SSA study had identified as having uncredited earnings, determined the actual effect of uncredited earnings on these beneficiaries. For half of the beneficiaries, uncredited earnings had not been considered in calculating benefits. Inclusion of the uncredited earnings entitled one of every two of these beneficiaries to an average of \$16.81 more each month. Accumulated monthly benefits should have been higher by an average of \$456. GAO also measured the effect uncredited earnings could potentially have on individuals identified from the same SSA study. GAO found that three of every five individuals with uncredited earnings faced the possible loss of monthly Social Security benefits averaging \$17.

SSA's Plans Do Not Address All Issues

SSA plans to contact employers to resolve 1 million of the backlogged earnings reports by the end of 1987. SSA also plans to exclude about 723,000 reports from review because it believes the earnings difference is too small to even try to resolve. Not investigating such reports, however, could mean the loss of about \$9 in monthly benefits for low-income individuals. In addition, SSA's plans do not address how it will

- deal with the remaining 1.7 million backlogged employer reports and the 1 million 1984 and 1985 reports it expects to receive from IRS,
- deal with employers who do not reply to SSA's request for data, and
- ensure that affected employers save employees' earnings records that could be discarded because of the expiration of the record retention period specified by IRS.

Trust Funds Retain Tax Money for Earnings Not Credited

The differences in earnings recorded by the two agencies raise questions about the amount of tax revenue to which SSA is entitled. Since 1978, when the dual reporting system began, SSA has received tax revenues based on quarterly earnings reported to IRS. Despite these interim transfers, the law requires the Secretary of Health and Human Services (HHS) to certify the earnings amounts SSA recorded because Social Security is entitled to retain tax revenues based on that amount only. The law does not specify a time by which earnings for a given year must be certified, and SSA has not certified any since 1978.

The absence of a high-level SSA focal point for financial management contributed to this matter's going unaddressed. As a result, SSA has recorded about \$58.5 billion less in earnings than IRS as of March 1987; therefore, SSA may not have a legal basis for retaining a portion of the related tax money of \$7.7 billion once it certifies the earnings it has

recorded. For 1978-82, years for which employers are no longer required to maintain wage data that could be needed for future reconciliation, SSA could have to return \$2.8 billion to the Treasury, based on SSA's records as of March 1987.

Matters for Congressional Consideration

The Congress should consider

- requiring SSA and IRS to submit a plan of action to appropriate congressional committees specifying (1) a time-phased schedule for eliminating the backlog and resolving new discrepancies and (2) any additional resources that will be required and
- amending section 201(a) of the Social Security Act, either to specify a time limit for the Secretary of HHS to certify earnings based on SSA's records or to permit SSA to retain tax revenues based on earnings amounts recorded by IRS rather than amounts recorded by SSA.

Recommendations

GAO recommends that the Secretaries of HHS and the Treasury direct the Commissioners of Social Security and Internal Revenue to

- develop and pursue a strategy for examining the backlogged and newer cases and report their plans to the Congress and
- determine the major causes of recording differences in SSA and IRS earnings totals and take corrective action to prevent their occurrence or reduce their frequency.

GAO also makes a separate recommendation to the Secretary of HHS to direct the Commissioner of Social Security to require that the chief financial officer of SSA serve as a focal point for ensuring that the matters discussed in this report are addressed.

Agency Comments

HHS and IRS generally agreed with GAO's recommendations and said they would develop a plan to resolve the earnings crediting problem. HHS did not indicate when it would begin certifying earnings based on SSA records.

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Abbreviations

EIN	employer identification number
GAO	General Accounting Office
HHS	Department of Health and Human Services
IRS	Internal Revenue Service
SSA	Social Security Administration

Introduction

Earnings in Social Security-covered employment enable an individual to build sufficient credits, called quarters of coverage, to gain eligibility for Social Security benefits. Once sufficient quarters of coverage are earned and retirement, survivors, or disability conditions are met, SSA uses the amount of earnings to calculate an individual's benefit.

Employers report earnings of employees directly to the Social Security Administration (SSA). The self-employed report their earnings to the Internal Revenue Service (IRS), which then provides SSA the relevant identification and earnings data; SSA credits the earnings to individuals' Social Security accounts.

This review assesses the effectiveness of the process designed to ensure that employees receive credit for their earnings in their Social Security accounts. It also examines and measures—for some employees and self-employed—the impact of uncredited earnings on Social Security benefit payments and on Social Security's trust funds.

Earnings Reporting and Crediting Processes

SSA annually receives more than 8 million summary employers' earnings reports; that is, employers annually report to SSA summaries of all employees' earnings on a form called a W-3 and provide each employee's earnings (form W-2, Wage and Tax Statement) up to a yearly maximum amount. Employers also file with IRS quarterly tax reports (form 941, Employer's Quarterly Federal Tax Return, or a similar form) of total employees' earnings and pay all taxes due, including Social Security taxes.

SSA checks the identifying information on each W-2, such as name and Social Security number, against its existing records before crediting earnings to an individual's Social Security account. If SSA cannot match the identification data with its records, SSA places the W-2 information in a suspense account file, pending resolution. As of October 1986, the file included about \$94 billion in wages that had not been credited to individuals' accounts (a small percentage of all creditable wages).¹ Some of these wages have been in SSA's suspense account file since wages were first recorded in 1937.

There are about 9.5 million self-employed who report their earnings directly to IRS, as part of their tax returns. IRS then provides the earnings

¹When we differentiate between earnings of employees and the self-employed, we use the term "wages" for employees and "self-employment earnings" for the self-employed.

and identification data to SSA. If SSA cannot match the identification data with its records, the data are placed in a self-employment suspense account file, pending resolution. As of October 1986, that file included about \$6.5 billion in unresolved earnings (a small percentage of all creditable self-employment earnings). Some of these earnings have been in SSA's file since self-employment earnings were first recorded in 1951.

Earnings reported by employers to SSA serve as the basis for determining the amount of tax revenues to which the Social Security trust funds are entitled. The amount is meant to be determined by applying tax rates to earnings that SSA certifies are recorded in its records (both individuals' accounts and the suspense account file). In practice, the Department of the Treasury transfers tax money to the Social Security trust funds throughout the year, based on the earnings reported quarterly by employers to IRS. After transfer, the taxes are used to pay Social Security benefits to eligible individuals or their survivors.

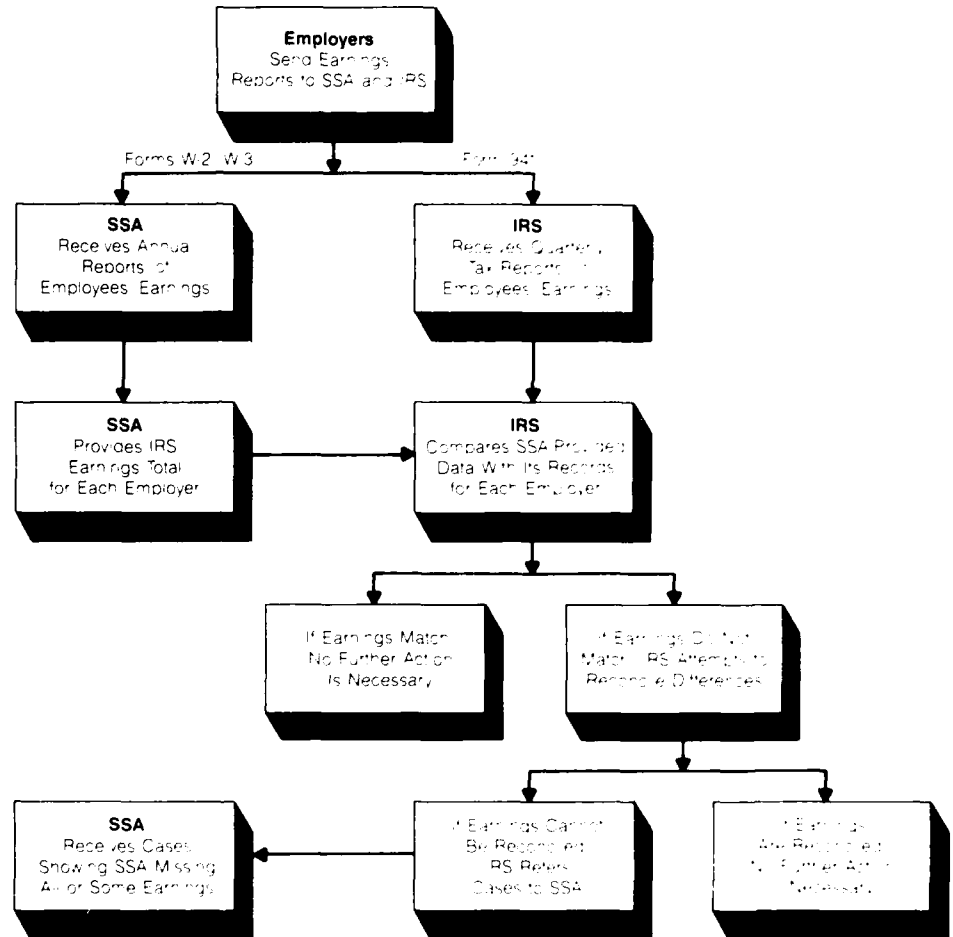
Assuring Credit for Earnings

Currently, there are two primary ways individuals and SSA can detect whether earnings were not credited to individuals' Social Security accounts. First, individuals can (and are encouraged by SSA through various public information media to) request a record of their earnings to check their own Social Security accounts for earnings and quarters of coverage. Individuals sometimes check their earnings while still working; others check when applying for benefits. Individuals who find that earnings were not correctly credited can submit acceptable evidence of these earnings, such as a statement signed by the employer, a W-2, or pay slips, and have their accounts adjusted.

Second, IRS identifies employers who may not have reported some or all employees' earnings to SSA. IRS does this by comparing its total of employers' earnings for employees with SSA's total. IRS then identifies specific employers' earnings reports that indicate an employer either may not have reported (1) missing reports (no earnings recorded by SSA for a specific employer identification number [EIN]) or (2) discrepant reports (some earnings recorded by SSA for a specific EIN, but the amount is less than that recorded by IRS).¹ In this way, employers with potential reporting problems are identified and can be contacted by either SSA or IRS to pinpoint what may not have been recorded correctly. The reporting and reconciliation processes are shown in figure 1.1.

¹IRS also identifies employers who may not have reported or incorrectly reported earnings to IRS. These cases are not referred to SSA and were not a part of our review.

Figure 1.1: Reporting and Reconciliation of Employers' Earnings Reports



Objectives, Scope, and Methodology

The objectives of our review were to (1) determine how SSA ensures that individuals' earnings are properly credited to their Social Security accounts and (2) measure the effect of uncredited or erroneously credited earnings on individuals' Social Security benefits and eligibility and on the Social Security trust funds. During our review we also sought to (1) determine the reasons that earnings differences were not being resolved and (2) learn more about the underlying causes for these differences. In order to achieve these two goals, we examined data SSA had

gathered about the reasons for and causes of earnings differences, as well as the corrective action needed.

To determine how SSA and IRS ensure that employers consistently report employees' earnings to both agencies, we examined and analyzed records documenting their efforts. We also reviewed SSA and IRS's formal agreement, which stipulates each agency's responsibilities under a system of combined annual wage reporting. To better understand SSA's and IRS's roles and responsibilities on certain legal and procedural questions related to reconciliation activities, we requested the views of the Secretary of Health and Human Services (HHS), through the Commissioner of Social Security (see app. III), and the Secretary of the Treasury, through the Commissioner of Internal Revenue (see app. IV), and discussed the matter with SSA and IRS officials.

To determine the actual effects of uncredited wages on beneficiaries and the potential effects on employees (still working), we reviewed SSA and IRS records. These included correspondence, studies, and statistics on employers whose earnings reports (based on IRS's match of IRS and SSA employer reports) may not have been recorded by SSA. In a 1985 study to examine the usefulness of data IRS furnished (indicating that SSA may not have received certain employers' earnings reports), SSA sampled a group of employers for whom SSA had no wage total or a lesser total than IRS. SSA asked the employers to provide some employee W-2s to help SSA track whether it had received and recorded the employees' wages. To determine whether the 1980 and 1981 W-2s had been accurately credited, we checked the W-2s employers provided for 11,151 employees against each individual's Social Security earnings record. For wages that had not been accurately credited, we measured the actual effects on current beneficiaries and, for those still working, we estimated the potential effects on survivors.

To measure the actual effects of uncredited earnings, we identified and then selected certain individuals whose earnings had not been credited and who were receiving benefits. At our request, SSA calculated the benefit amounts and monthly and retroactive underpayments. We also estimated a potential effect for individuals who were not yet receiving benefits. Rather than trying to forecast what each individual would earn until retirement, we asked SSA to assume the individual died, leaving a survivor; a benefit payment could thus be calculated based on the actual earnings of each individual. At our request, SSA computed benefits payable as of January 1984, with and without the uncredited earnings. We then calculated the difference in benefits for each individual's survivor.

The measurements of actual and potential effects of uncredited wages are not projectable to all employees with uncredited wages because the universe of affected employees is not known. Rather, the results serve as an indication of the payment effect on employees who were identified as having uncredited wages.

To measure these effects for the self-employed, we selected 7,100 self-employed individuals with uncredited 1979 earnings (we had identified them during a previous review³). We then used the same procedure to calculate the difference in their benefits that we had used for employees. Again, the results are not projectable to the universe of all self-employed, but serve as an indication of the payment effect from the uncredited self-employment earnings.

Our work was done from October 1984 to December 1986 in accordance with generally accepted government auditing standards, except that we did not assess the reliability of the IRS system used to record employers' quarterly federal tax returns or the SSA system used to record employees' earnings.

³IRS and SSA Can Improve the Verification and Recording of Data Provided by Self-Employed Taxpayers (GAO GGD-85-21, May 28, 1985).

IRS and SSA Earnings Differences Total More Than \$58 Billion

Since 1978, when employers were first required to report employees' earnings annually to SSA and quarterly to IRS, the total earnings amounts recorded by each agency (as reported to them by employers) have differed. SSA, as of March 1987, had recorded about \$58.5 billion less than IRS for 1978-84 (data after 1984 are preliminary). These earnings differences, through 1983, involved about 3.5 million earnings reports for about 2.5 million employers. About one-fourth of these employers' earnings reports showed differences between the two agencies for more than 1 year.

Chapter 3 illustrates the effects of these differences on some beneficiaries and employees. Chapter 4 discusses the various causes of these differences.

SSA Has Consistently Recorded Less in Earnings Than IRS

Since 1978 employers have been required to report employees' earnings to IRS quarterly (941s) and to SSA annually (W-3s).¹ The total of each employer's four quarterly reports to IRS should equal the total earnings that an employer reports annually to SSA. When differences arise in employer reports, it becomes a matter of concern. IRS is usually concerned that the employer reported more earnings to SSA than to IRS; this means that taxes are due on earnings not reported. SSA is usually concerned that the employer reported more earnings to IRS than to SSA; this means that employees' earnings were not credited to their Social Security accounts.

Total earnings recorded by each agency and the differences that have existed since 1978 are shown in table 2.1.

¹Before 1978, all employer reports with detailed employee data were provided quarterly to IRS, which forwarded the data to SSA. The change to the current format was intended to eliminate the burden of detailed quarterly reporting.

Chapter 2
IRS and SSA Earnings Differences Total More
Than \$58 Billion

Table 2.1: Comparison of Total Earnings Recorded by IRS and SSA, as of March 1987

Dollars in billions

Year	IRS	SSA	Net amounts not recorded by SSA
1978	\$762.5	\$758.7	\$3.8
1979	897.4	894.9	2.5
1980	988.2	980.5	7.7
1981	1,091.6	1,091.3	0.3
1982	1,151.7	1,143.4	8.3
1983	1,223.0	1,211.9	11.1
1984	1,356.8	1,332.0	24.8
Total	\$7,471.2	\$7,412.7	\$58.5

Note: IRS's 941 data for 1985 earnings exceeded SSA's W-3 data by \$31.7 billion, as of March 1987. Based on past experience, this amount is expected to decrease significantly, as late earnings reports and corrections to prior reports are processed. For example, in March 1985, IRS's 941 data for 1983 exceeded SSA's data by \$49.1 billion; as of June 1986, this amount had been reduced to \$16.8 billion. The decrease is not a result of reconciliation.

As of March 1987, SSA had not resolved the \$58.5 billion shortfall in its records for the 1978-84 period. However, the \$58.5 billion not recorded by SSA represents only about 0.8 of 1 percent of the \$7,412.7 billion that SSA credited from 1978-84.

Earnings Differences Involved Half a Million Employers' Reports Annually

IRS totals the 941s for each employer and compares this total with the W-3 data SSA recorded for the employer. Differences identified (discussed in ch. 1) indicate employers who may not have reported some or all of their employees' earnings.

The number of missing and discrepant employers' earnings reports for 1978-83 are shown in table 2.2. The number of employees potentially affected cannot be determined because the IRS data do not show this number but, rather, the amount by which the SSA and IRS earnings totals differ for specific employers.

Table 2.2: Number of Employers' Earnings Reports That Showed More Earnings Recorded by IRS Than by SSA, 1978-83^a

Year	Missing	Discrepant	Total
1978	406,075	173,375	579,450 ^b
1979	423,863	244,058	667,921
1980	359,298	205,538	564,836 ^b
1981	324,379	188,943	513,322
1982	345,427	197,666	543,093
1983	398,256	225,540	623,796
Total	2,257,298	1,235,120	3,492,418

^aAs of January 1986, SSA, as of the middle of April 1987, had not counted the number of missing and discrepant reports for 1984.

^bThese totals are incomplete because SSA lost an undetermined number of records for these years.

Some Employers With Reporting Differences in More Than 1 Year

Although about 3.5 million employers' earnings reports are missing or discrepant, this number does not represent 3.5 million different employers. There are some employers with reporting differences in more than 1 year. To determine the extent to which reporting differences attributable to some employers occurred repeatedly over the 6-year period, we checked the frequency with which the same EIN was on the SSA-IRS unreconciled lists for 1978-83. The results are shown in table 2.3.

Table 2.3: Frequency Estimate of Employers With Unreconciled Earnings Reports, 1978-83

Number of years EIN appeared in 6-year period	Employers		Missing or discrepant reports
	Number	Percent	
1	1,824,769	73.5	1,824,769
2	428,614	17.3	857,228
3	133,317	5.4	399,951
4	53,090	2.1	212,360
5	26,600	1.1	133,000
6	15,339	.6	92,034
Total	2,481,729	100.0	3,519,342^a

^aThe total of employers' reports differs from the total in table 2.2, because of differences in when the data were processed.

About 2.5 million employers accounted for the 3.5 million missing or discrepant earnings reports. About 1.8 million (73.5 percent) employers had only 1 year of problem earnings reports; 0.7 million employers (26.5 percent) had problems in more than 1 year. Looked at another way, contacting about 657,000 employers (one of every four employers) with more than 1 year of earnings in question may resolve nearly one-half of the reports with suspected earnings problems.

Contacting Employers to Reconcile Differences Helped SSA Credit Some Earnings

We estimate that the total earnings on the reports needing reconciliation is about \$143 billion for 1978-83. Reconciliation does not always result in recording additional earnings to individuals' Social Security accounts. For example, employers may have used different EINs in reporting the same earnings to SSA and IRS; if so, SSA could have credited each of the employees for their earnings and could have the (W-3) record of total employees' earnings for the employer under an EIN different from IRS's. Employers must be contacted to determine whether employees' earnings were reported to SSA and IRS under different EINs or whether employees' earnings were not reported or were underreported. The question that arises is this: Is it beneficial to attempt to reconcile \$143 billion in employers' earnings reports to try to find the \$33.7 billion through 1983 that SSA did not record in individuals' Social Security accounts? (Considering 1984, the \$143 billion in unreconciled employers' earnings reports would have grown, but we did not determine the extent of such growth.)

SSA found that contacting employers with potentially missing or discrepant employees' earnings, as identified by IRS, does result in the crediting of earnings to some individuals' Social Security accounts. SSA did two studies² of the usefulness of IRS-furnished data to contact employers; in addition, SSA initiated and completed the first part of a more comprehensive effort³ to reduce backlogged employers' reports needing reconciliation. As a result of these efforts, SSA was able to credit an estimated \$3.6 billion in earnings to 692,108 individuals' Social Security accounts. The results of SSA's crediting efforts are summarized in table 2.4.

²In its first study, SSA attempted to contact 1,424 employers with missing or discrepant earnings for 1980 or 1981 or both. In its second study, SSA attempted to contact 7,984 employers with missing or discrepant 1983 earnings.

³For the first part of SSA's three-part effort to resolve the backlogged employers' reports, SSA attempted to contact about 204,558 employers with missing 1983 reports and 83,703 employers with missing 1978 reports.

Chapter 2
IRS and SSA Earnings Differences Total More
Than \$58 Billion

**Table 2.4: Earnings Credited to
Individuals' Social Security Accounts**

Dollars in millions

SSA effort	Earnings credited		Individuals' accounts credited
	Amount	Employers	
First study	\$71.7	182	11,579
Second study	121.6	2,629	26,302
First part of effort to reduce backlog	3,360.2	75,770	654,227
Total	\$3,553.5	78,581	692,108

¹Estimated by SSA. This estimate is based on the dollar value IRS assigned to the first 10 years of reports that SSA processed.

Using the data in tables 2.1, 2.3, and 2.4, it is possible to roughly estimate the total number of individuals affected by the reconciliation workload. In table 2.4, 692,108 individuals were credited with a total of about \$3,553.5 million, about \$5,134 for each individual. Assuming that the average amount credited for each individual would also apply to the \$58.5 billion not recorded by SSA, shown in table 2.1, about 11.4 million instances of crediting would result. After adjusting for the fact that some of these instances of crediting would involve the same employees for more than 1 year, as indicated in table 2.3, we estimate that 9.7 million individuals have unrecorded earnings from the reconciliation workload.

Uncredited Earnings Affect Social Security Beneficiaries and Trust Funds

Because earnings are used to determine an individual's eligibility and benefit amount, uncredited earnings can affect SSA benefit payments. Current beneficiaries have lost—and will continue to lose—benefits because of SSA's failure to correctly credit their earnings. In addition, individuals with uncredited earnings may receive less in benefits than they are entitled to when eligible if the earnings stay uncredited.

Uncredited earnings can also affect Social Security trust fund revenues. These trust funds are entitled to tax revenues based on SSA-recorded earnings. Consequently, unrecorded or uncredited earnings should reduce these revenues. SSA would have to return about \$7.7 billion to the Treasury, based on earnings reports for the years 1978-84, if (1) SSA-IRS earnings differences are not reconciled and (2) current SSA earnings records are used to adjust trust fund balances.

Beneficiaries Are Underpaid

The effects of uncredited earnings are illustrated by the extent of underpayments to certain beneficiaries with uncredited wages or self-employment earnings for the years before 1982. When uncredited earnings were included in Social Security's benefit computation, monthly benefits increased from less than \$1 to over \$200 a month. Further, as a result, these same beneficiaries were due retroactive payments ranging from a few dollars to about \$4,500 for periods over 5 years.

Effect on Employees

During a study of missing and discrepant employers' earnings reports for 1980 and 1981,¹ SSA obtained W-2s from employers. Using 11,151 of these W-2s, we checked Social Security's benefit rolls and identified 358 individuals who appeared to have uncredited wages and were receiving benefits. To determine whether uncredited earnings actually affected benefits, we judgmentally selected some of the 358 beneficiary case files for review. Case files are located throughout the country. We selected cases only in Philadelphia, New York City, and Woodlawn (Maryland) to facilitate our review. Of 159 cases selected, SSA was able to provide 137 files.

In 68 of the 137 sample cases (50 percent), wages had been correctly included in SSA's benefit computation. The missing wages were identified

¹When the volume of unrecorded employers' reports reached nearly 1 million, SSA initiated a study to determine the reasons for, and what to do about, those that SSA either (1) had no record of receiving or (2) had received, but which showed less in wages than reported to IRS. Five SSA regions participated in the study by attempting to contact a sample of 1,414 companies with missing or discrepant 1980-1981 or both earnings reports.

during the benefit application process, generally as a result of either SSA's or the individual's noticing that earnings were not credited. For the remaining 69 individuals whose uncredited wages were not included in the benefit computation, we asked SSA to calculate benefits, including the earnings that had not been previously credited. Inclusion of the uncredited earnings entitled 33 beneficiaries to an average of \$16.81 more each month. The other 36 beneficiaries were not entitled to a higher benefit for various reasons: for example, the uncredited earnings were not high enough (relative to each beneficiary's own history of earnings) to be included in the benefit computation. (Generally, the benefit computation excludes the 5 lowest years of earnings.)

The monthly benefit effect on the 33 beneficiaries affected is summarized in table 3.1.

Table 3.1: Effect on Monthly Benefits for Beneficiaries With Uncredited Wages^a

1980 or 1981 or both uncredited wages	Beneficiaries affected by		
	Less than \$5	\$5-\$10	Over \$10
\$ 1 to \$ 1 000	3	1	0
1 001 to 5 000	6	2	2
5 001 to 10 000	2	3	3
10 001 to 29 700	2	2	7
Total	13	8	12

^a Computed as of the beneficiary's last month of eligibility, or April 1980.

The 33 beneficiaries were due higher monthly benefits for an average of 31 months, including a few that exceeded 5 years. Accumulated payments should have been higher by an average of \$456; they ranged from a few dollars to about \$1,850. The additional benefits due are summarized in table 3.2.

Table 3.2: Cumulative Additional Benefits Due Beneficiaries With Uncredited Wages^a

Uncredited wages	Beneficiaries affected by		
	Less than \$100	\$100 to \$500	Over \$500
\$ 1 to \$ 1 000	2	2	0
1 001 to 5 000	6	4	4
5 001 to 10 000	2	2	4
10 001 to 29 700	2	4	6
Total	12	11	10

^a Computed as of the beneficiary's last month of eligibility, or April 1980.

During our review, SSA told us it was in the process of crediting these beneficiaries' earnings and correcting their benefit payments.

Effect on the Self-Employed

Although self-employment earnings are not subject to the SSA-IRS wage reconciliation, such earnings—when uncredited—can also affect benefits. Of 7,100 self-employed (mentioned in ch. 1), whose earnings we identified (during a previous review) as uncredited in 1979 because either IRS did not furnish or SSA did not process the data, 1,060 were on Social Security's retirement and survivors benefit rolls. To determine whether uncredited earnings affected their benefits, we judgmentally selected² individuals for review. Of 231 cases selected, SSA was able to provide 220 benefit files for our review.

In 67 of the 220 reviewed cases (30 percent), the missing earnings had been identified by the individual or SSA, generally during the benefit application process, and included in the benefit computation. For the remaining 153 cases, we asked SSA to recalculate the benefits, including the earnings that were not credited. Inclusion of the uncredited earnings entitled 62 beneficiaries to an average of \$7.90 more each month. The other 91 beneficiaries were not entitled to a higher benefit for various reasons: for example, the uncredited earnings were not high enough (relative to each beneficiary's own history of earnings) to be included in the benefit computation.

The monthly benefit effect for the 62 beneficiaries that were affected is shown in table 3.3.

Table 3.3: Effect on Monthly Benefits for Individuals With Uncredited Self-Employment Earnings^a

Uncredited 1979 self-employment earnings amount	Beneficiaries affected by		
	Less than \$5	\$5 to \$10	Over \$10
\$ 1 to \$ 1,000	9	0	1
1,001 to 5,000	25	4	3
5,001 to 10,000	2	4	7
10,001 to 22,900	0	3	4
Total	36	11	15

^aComputed as of the beneficiary's last month of eligibility, or as late as August 1985.

The 62 beneficiaries were due higher monthly benefits for an average of 43 months, including a few for over 5 years. Accumulated payments should have been higher by an average of \$434 and ranged from a few dollars to about \$4,500. The additional benefits due are summarized in table 3.4.

²The selection was made based on a stratified random sample of uncredited earnings amounts for benefit files located in Philadelphia.

Table 3.4: Cumulative Additional Benefits Due Individuals With Uncredited Self-Employment Earnings^a

Uncredited 1979 self-employment earnings amount	Beneficiaries affected by		
	Less than \$100	\$100 to \$500	Over \$500
\$ 1 to \$ 1 000	6	4	0
1 001 to 5 000	15	15	2
5 001 to 10 000	0	6	7
10 001 to 22 900	0	2	5
Total	21	27	14

^aComputed as of the beneficiary's last month of eligibility or as late as August 1985.

Unless these 62 beneficiaries identify the missing earnings, the underpayments will continue to grow until SSA takes corrective action. SSA does not plan to correct these underpayments until it receives additional data from IRS. (See p. 33 for discussion of the needed corrective action and its status.)

Future Beneficiaries May Be Underpaid

Some individuals face reduced benefits or ineligibility because of uncredited earnings. If these individuals' survivors were eligible for benefits in January 1984, when we measured the potential effect on benefits, they would have received benefits lower than they were entitled to. Furthermore, a few individuals' survivors would have been found ineligible for benefits when, in fact, they were eligible if the uncredited earnings were included.

We identified 5,714 employees whose earnings were not credited to their Social Security accounts. These employees were identified by using the same 11,151 W-2s that SSA, during its study of employers with potentially missing or discrepant earnings reports, obtained from employers (see ch. 1). To determine the potential effect uncredited wages could have on the benefits of an employee should he or she die and leave a survivor, SSA calculated Social Security benefits with and without the uncredited wages.

We found that the uncredited wages could affect 3,510 employees' survivors (three of every five) by an average of about \$17 per month. See appendix V for more details on the potential monthly benefit effect of uncredited wages. Further, the wages that were not credited but should have been were necessary for 60 employees; without these earnings their survivors would not have been eligible for any benefits.

Similarly, of the 7,100 self-employed whose earnings were earlier identified as uncredited in 1979, 4,472 (two of every three) could have had

survivors affected by the uncredited earnings. The average monthly benefit effect was \$7.30. See appendix VI for more details on the potential monthly benefit effect for survivors of individuals we identified during a previous review (cited in ch. 1) as having uncredited self-employment earnings.

Retention of Some Tax Money in Trust Funds May Be Questionable

The Social Security Act, section 201(a), specifies that tax money should be transferred to the trust funds based on the Secretary of HHS's certifying earnings amounts actually recorded in records established and maintained by the Secretary. In practice, SSA certifies earnings (on behalf of HHS) but, since 1978, has not made the certification based on earnings amounts in its records. Instead, SSA has made "interim certifications" based on quarterly earnings amounts reported by employers to IRS and recorded by IRS. In effect, SSA is certifying that it expects to record earnings in the amount IRS has. Although such interim certification may be appropriate until a final certification can be made, based on SSA's records, the law does not specify a time limit for accomplishing such a final certification, and SSA has not made one. Because SSA records support \$58.5 billion less in earnings than IRS records as of March 1987, an estimated \$7.7 billion in taxes is being retained by the trust funds, for which SSA has recorded no earnings. About \$2.8 billion of these taxes are for 1978-82 earnings, years for which employers are no longer required to retain earnings records. If SSA was to certify the earnings it has recorded for these years, which we believe reasonable, it would have to return any previously appropriated taxes in excess of the earnings certified.

Before 1978, both IRS and SSA used the same quarterly reports of employees' earnings. Until 1978, the quarterly certification letter was based totally on (SSA's) recorded earnings as required by law. Since 1978, SSA has revised the basis and substance of its certification letter to the Treasury because SSA began receiving earnings information annually rather than quarterly and needed a more current basis for targeting the flow of tax money. SSA now uses the earnings data IRS has recorded and accumulated from employers' 941s (filed quarterly); SSA considers these data as estimates of earnings that it expects to eventually record. As a result, SSA's certifications have been, and continue to be, based on these estimates. Neither IRS nor SSA has assessed the reliability or accuracy of the current IRS data on which these estimates are based.

We asked SSA and IRS what constitutes a reasonable time period for certification, but neither specified a time period. SSA responded: "Given the

problems we have faced with reconciliation since the advent of annual wage reporting, we have no experience upon which to determine what a reasonable time period may be, but we support the development of a reasonable time period goal." IRS responded: "Since no time frame is specified by law, we accept the current certification time period presently being followed by DHS." We believe it reasonable that, as a guideline, the maximum time period for certification should correspond to the present duration that employers are required by IRS to retain employees' records of earnings. Current IRS instructions state that employers should retain employees' earnings records for 4 years.

We also asked the following question: "Must SSA return to the Treasury trust fund credits for earnings that exceed amounts [SSA is] able to certify?" SSA said:

"The Social Security Act (Section 201(a)) requires that the taxes appropriated to the Old-Aged and Survivors Insurance, Disability Insurance, and Hospital Insurance trust funds be determined by the Secretary of the Treasury by applying the applicable rates of tax to wages of self-employment income certified by the Secretary of HHS. The Secretary of HHS is to certify wage data to Treasury based on 'records of wages established and maintained' by the Secretary of HHS. The taxes are initially appropriated to the trust funds on an estimated basis. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of taxes actually payable as determined from reported earnings.

"For calendar years 1978-1985, adjustments have been made on the basis of wages reported to IRS on form 941. These wage data have been 'certified' as interim data. The wages paid in recent years have not been certified to Treasury in the same sense that wages certified before 1978 were certified because the data do not represent individual employee records maintained and established by the Secretary of HHS. When the earnings are fully certified based on HHS records (finalizing HHS wage data is dependent on the reconciliation process), any excess of the previously appropriated taxes, over and above the taxes determined from the certified earnings, must be returned to the general fund of the Treasury. Similarly, any excess of taxes determined from the certified wages, over and above the previously appropriated taxes, must also be appropriated from the general fund to the trust funds.

"Before earnings are certified for any of the years 1978 or later, any remaining unreconciled wage reports will be added to the Nondetailed Employee Report file, a file of undistributed wage items. Any wages in this file will be included in the earnings certified to the Treasury. At this time, it is not known whether the certification of earnings for those years will actually result in a return to the general fund or an additional appropriation to the trust funds."

SSA's response recognizes that (1) its certifications since 1978 are "interim" because they are not based on records established and maintained by the Secretary of HHS as provided in the law; (2) making its earnings data final, and thus achieving final certification, is dependent on completing the reconciliation process; (3) its final certification should be based on individual employee records maintained and established by SSA (on behalf of HHS); and (4) the IRS 941 data are not individual employee records. SSA's creation of an employer suspense account file, referred to by SSA as a Nondetailed Employee Report file, places unrec- onciled earnings recorded by IRS into an SSA file. However, use of such a file for certification would not be an adequate basis for final certifica- tion because after reconciliation is completed, the remaining unreconcil- able earnings (1) would be total earnings amounts reported by employers and not amounts creditable to individuals' earnings records and (2) could have already been credited to individuals' records.

Causes of the Problem and Attempts at Resolution

SSA and IRS have not adequately resolved differences in employers' earnings reports, nor have they addressed the causes of the differences. Many causes have contributed to the current problem. The change in employer reporting requirements and weaknesses in SSA's internal controls resulted in larger than anticipated numbers of employers' reports that had to be reconciled. The resultant need for larger than anticipated resources was not addressed by either agency. Changes in SSA's leadership and management's inability to resolve conflicting organizational priorities also contributed to the problem. The unreconciled backlogged reports have prevented identification of the underlying causes of employer reporting differences, which must be known before plans can be developed to prevent or detect future occurrences.

After nearly 6 years of its own studies and discussions with IRS, SSA has begun to reconcile some earnings differences and has developed a reconciliation plan. The plan, however, does not address (1) all the backlogged earnings reports and (2) what to do about employers who are unable or unwilling to help SSA. Furthermore, because employers retain records for a limited time, information needed to reconcile some older reports may not be available.

Some Causes of Reporting Differences Not Fully Understood

With the advent of a new system of combined annual wage reporting in 1978, SSA started experiencing a substantial growth in the number of missing and discrepant employers' earnings reports. The change to a new system required a change in earnings reporting, contributing to this growth. SSA has twice conducted studies of the reasons for this growth, but it has not been able to fully determine what they are. However, SSA has identified weaknesses in its earnings recording system that may further contribute to the uncredited earnings problem.

Changes in Reporting Requirements Contributed to Growth in Missing and Discrepant Reports

The number of missing and discrepant reports climbed from 171,000 in 1977 to about 582,000 in 1978 and later. Some of this growth was caused by the change to combined annual wage reporting, instituted in 1978 to reduce the reporting burden on employers. Since 1978, employers have been required to submit 941s to IRS, but they do not have to provide—as they had previously—detailed quarterly lists of employees and their earnings. Instead, employers are now required to annually report employees' earnings to SSA for each employee and for total employees. As a result, for 1978 and later, two data sets are prepared by employers and compared by the agencies instead of the same data being used by both agencies, as was done for 1977 and earlier.

Even though the combined annual wage reporting system requires employers to report separately to IRS and SSA, SSA has evidence to show that some employers are still reporting to just one agency—IRS. Even though IRS's procedures require forwarding data to SSA that should have been sent to SSA, not all such data are included in SSA's records. SSA's first study showed that for employers who said that the data were sent to IRS, only 40 percent of the data were recorded by SSA. SSA could not determine whether the original earnings reports were received from IRS or, if received, what happened to them.

In April 1986, we visited IRS's Philadelphia Service Center, 1 of IRS's 10 service centers where individuals and employers send their tax returns, to determine if employers were erroneously sending 1985 earnings reports to IRS instead of SSA. We found that 16,256 employers had erroneously sent this service center 16,825 earnings reports, totalling more than \$800 million. Although the data sent were mostly for 1985, we noted from IRS records that earnings reports for prior years, ranging from 1979 to 1984, were also erroneously sent to IRS.

We compared employers who erroneously sent SSA data to IRS with the IRS-SSA listing for 1978-83 missing and discrepant reports. We found that 4,934 (30 percent) of these employers' reports had been missing or discrepant in prior years. Further, 2,146 (about 13 percent) of these employers had more than 1 year of missing or discrepant earnings reports.

SSA officials said that because the system requires more tracking and accounting, the possibility for error increases. Employers prepare and submit five separate reports (the four quarterly reports to IRS and the more detailed annual report to SSA) at different times. This increases the number of places an error can be introduced into the system. Further, the fact that the maximum earnings amount subject to Social Security taxation increases each year also introduces another possibility for error (if an employer does not recognize a change to the higher maximum amount). In addition, an employer can change EINs during the year because of a merger or consolidation. The employer could have reported to IRS some quarterly earnings under an EIN and the remaining quarterly earnings under a different EIN, but reported employees' total earnings to SSA under only one of the two EINs. Although the agencies are aware that these reporting problems occur, the agencies have not evaluated how tracking such EIN changes could reduce the reconciliation workload.

Causes Not Sufficiently Identified by SSA Studies

In its first study of employers' earnings reports, in which SSA attempted to contact 1,424 employers about missing or discrepant 1980 or 1981 or both earnings, SSA recognized that certain questions needed further investigation including

- why some W-2s apparently sent to SSA were not credited;
- why some earnings reports originally listed as missing or discrepant were located at SSA (SSA said some were due to subsequent processing of IRS corrections, delinquent reports, SSA errors, and different EINs, but others were unexplainable); and
- why EIN changes reported to IRS are not reflected in SSA's records (making it difficult for SSA to determine whether it has processed a specific employer's earnings report).

In its second study of employers' earnings reports, SSA attempted to contact 7,984 employers about missing or discrepant 1983 earnings; SSA also attempted to address the cause of the earnings reporting and recording problems. A summary of the causes for the 4,432 employers who responded is shown in table 4.1.

**Table 4.1: SSA's List of Causes of
Missing and Discrepant Earnings
Reports**

Causes	Employers affected (in percent)
Employer	
Failed to enter correct Social Security earnings on W 2s	12
Failed to file any W 2s	10
Used different EIN for W 2s than for tax returns	10
Omitted some W 2s	3
Completed W 2s and allegedly sent them to incorrect office	1
SSA	
Keying or scanning error picked up the wrong amount of Social Security earnings	4
Keying or scanning error picked up wrong EIN	•
Other ^a	1
IRS error^b	1
Other^b	23
Unknown	36
Total	100

^aThese figures are percentages.

^bData gathered by SSA for the first study of employers' earnings reports, the type of error that caused the missing or discrepant earnings report.

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at Resolution

The data in table 4.1 show that 60 percent of the causes of missing and discrepant earnings reports were not attributable to a specific reason.

During its study of missing and discrepant earnings reports, SSA gathered cost data to measure the effectiveness of resolving employers' earnings reports by mail. SSA found

"The total direct cost for the study (not including cost of material and mailing) was \$119,943, for an average cost of \$27 per employer who responded to our request for information. We were able to resolve about \$2,600 for each dollar of direct cost of the study, and will be able to post about \$1,000 in additional wages for each dollar of direct cost incurred. This also means a proper credit of \$134 in [Social Security] taxes (1983 rates) to the trust funds for each dollar of direct cost."

Internal Controls Over
SSA's Earnings Recording
System Are Weak

In 1982, the HHS Office of Inspector General identified internal control weaknesses in SSA's earnings data processing. These weaknesses have not been corrected, and SSA's 1984, 1985, and 1986 internal control assessments¹ stated that controls over the system that maintains earnings records appear inadequate to ensure that individuals' earnings are completely accurate. SSA had planned to redesign its earnings system to correct system weaknesses. The planned redesign, however, was canceled in December 1985 because SSA decided that higher-than-anticipated costs and improvements already made rendered the proposed change no longer cost-effective.

SSA has made improvements to the system and, at present, is planning additional changes to correct some problems; however, these improvements will not eliminate the need for reconciliation or resolve all employer reporting differences. SSA improvements to the system include increased computer capacity and improved file accessibility, which reduced the processing time for earnings reports—from 39 months for 1978 reports to 7 months for 1985 reports. SSA's planned changes include establishment of an employer reporting file that will list employers who reported the previous year and are expected to file a report for the current year. If such a report is not received, SSA will be alerted to act. This will enable SSA to identify potentially missing reports more than a year earlier than currently, and result in an immediate inquiry to

¹The Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255) requires annual agency assessments and reports on internal control systems. SSA's assessments, however, did not discuss the lack of reconciliation of IRS and SSA data on employer-reported earnings information. This important control mechanism has been missing from SSA's earnings record system operation since 1978. It is this type of control weakness that should be identified and reported in SSA's annual internal control assessments.

affected employers. This change, scheduled for implementation in October 1987, would not reduce the need for reconciliation, but would give SSA early indications of potentially missing reports and allow earlier employer contact and resolution of earnings reporting problems. However, the change would not address the causes of the discrepant reports currently identified by IRS.

SSA and IRS Have Not Worked Well Together

Although SSA and IRS have separate missions, they share the use of some vital earnings and tax information basic to their distinct missions. SSA is concerned about the proper crediting of earnings to individuals' accounts, and IRS is concerned about the proper payment of taxes on reported earnings. Employers report earnings and tax information to these agencies at different times for different purposes. SSA and IRS rely on each other to share data that were reported to each agency. Both agencies explicitly recognize their dependence on each other by enumerating, in an interagency agreement, the services that each will contribute to help the other.

SSA Relied on IRS to Complete Reconciliation

Although IRS initially agreed to accept responsibility for the reconciliation of employers' earnings reports, it has not completed reconciliation for any year since 1978. As a result, some employees' earnings data associated with these employers' reports and which SSA needs to determine benefits are inaccurate or incomplete.

The IRS-SSA interagency agreement implementing annual wage reporting was authorized by Public Law 94-202. The major responsibilities assigned to each agency included the following:

- SSA would receive from each employer all employees' wage statements (W-2s) and a summary of employees' earnings (W-3). SSA would reconcile W-2s with W-3s and provide IRS these documents on magnetic tape. SSA would also furnish the reported and processed total of all money amounts for these documents.
- IRS would identify differences between the total wages each employer reported to SSA and the total annual wages the employer reported to IRS in its quarterly reports. IRS would then reconcile differences between IRS's and SSA's records. This included corresponding with employers to verify the correct amount.

IRS says that it reconciles as many reports as it can in each year before moving on to the following year's work. Considering its limited

resources, IRS emphasized reconciling those reports that had potential tax liability, an emphasis consistent with IRS's mission of assessing and collecting taxes due. Because the reconciliation workload was much larger than expected, IRS notified SSA, in July 1980, that it would not completely reconcile the 1978 workload and subsequently proposed a modification to the interagency agreement. This modification limited IRS's reconciliation effort, saying that its workload would be "Subject to normal budgetary constraints and resource restrictions imposed" In addition, this modification provided that IRS would give SSA tapes of unreconciled reports as of December 31 of the second year following the tax year in which wage documents were processed. SSA agreed to the modification in April 1981, but it did not agree to reconcile IRS's unreconciled reports. However, SSA's agreeing to accept the tapes indicates that SSA had reason to know IRS would not complete the reconciliation each year. Although IRS notified SSA that a sizable portion of the reports would not be reconciled, SSA—continuing to maintain that IRS should resolve the unreconciled workload—stored the tapes IRS sent each year.

For years SSA continued to maintain that the reconciliation was IRS's responsibility, and did little more than study the problem. IRS did not believe 100-percent reconciliation was required by law or by agreement. SSA believed that IRS should do a complete reconciliation because it was vital to SSA's mission. SSA reasoned that since it performed complete services for IRS, such as recording and providing W-2P (Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments) data that were primarily for tax purposes with little or indirect benefit to SSA, IRS should do a complete reconciliation of the data SSA needed. However, SSA seemed to disregard IRS's contention that it would not be able to help SSA further, even after IRS began sending SSA the computer tapes of the unfinished reconciliation workload. Although IRS planned to reconcile 100 percent of the 1978 reports, SSA records show nearly 580,000 missing or discrepant reports and a difference of \$3.8 billion in recorded earnings for that year. IRS's planned reconciliation efforts for tax years 1979-83 ranged from 20 to 50 percent of reports needing to be resolved.

Another important aspect of the reconciliation issue is that IRS has legal enforcement authority concerning the submission of employers' earnings reports. Under its legal authority, IRS can impose penalties on nonreporters and late reporters. As a result, SSA was concerned about corresponding with employers and requesting earnings information since it had no enforcement authority. Without enforcement authority, SSA relies on voluntary employer reporting and cannot invoke any penalty for delinquent reporting. SSA officials told us that because (1) the agreement

made IRS responsible for reconciling employers' reports and (2) SSA did not have enforcement authority. SSA was, until December 1985, unwilling to reconcile differences in these reports.

SSA Had Previous Experience With IRS's Not Providing Records Necessary to Credit Earnings

Self-employed individuals report their earnings and pay their taxes, including Social Security taxes, to IRS; it shares the reported self-employment earnings data with SSA so that these individuals receive the proper credit for their earnings in their Social Security accounts. SSA must rely on IRS to provide these data because there is now no other way for SSA to obtain the data so that it can credit these individuals' earnings.

In 1985, we reported that

"The agencies' present methods for processing self-employment records do not ensure that all self-employed persons who have reportable earnings receive credit for them. We estimate that for returns processed in 1980, IRS did not provide SSA with information on about 2,600 tax returns with earnings totaling \$20.5 million and SSA never processed an estimated 65,900 tax returns with earnings totaling about \$237.5 million."²

In August 1983 we first told SSA officials about this crediting problem. To correct its records SSA needs self-employed individuals' 1979 earnings and identification data from IRS for over 68,000 tax returns involved. In our review, we recommended that IRS provide SSA the data it needed, and IRS stated it would review the problem during meetings with SSA.

SSA and IRS met on December 12, 1985, and again on March 21, 1986, to review the status of the corrective action we sought. At the March meeting, IRS agreed to provide the self-employment data in December 1986. However, an IRS official said subsequent staffing reductions required IRS to postpone delivery of the data until June 1987.

On March 25, 1987, IRS told us it had to revise the delivery date again:

"When the original meetings were held approximately two years ago, personnel were available to provide the support for a project of this magnitude. At the present time, the resources available to do this type of work are committed through late 1987. In addition, due to tax law changes to be implemented in 1988, we are expecting substantial changes to the reports we presently produce, as well as the need for new ones. Therefore, the earliest we could commit to this work would be sometime

²IRS and SSA Can Improve the Verification and Recording of Data Provided by Self-Employed Taxpayers (GAO GGD-85-21, May 28, 1985).

after we have completed the updates to our 1988 reports, probably sometime in late 1988.¹

As a result, SSA will not be able to (1) act on IRS-furnished data for these 1979 self-employment earnings and (2) make necessary corrections to the accounts and benefit records of affected individuals until late 1988, if then. (See p. 22 for a discussion of the actual effect of these uncredited earnings on individuals receiving benefits and app. VI for the potential monthly benefit effects for survivors of the self-employed.)

No SSA Action Despite IRS's Nonreconciliation

In addition to its insistence that IRS reconcile all employers' reports, SSA did not take action to resolve the reports on the computer tapes IRS furnished, primarily because of internal conflicts concerning resources and organizational responsibility. Changes in leadership and the absence of a financial management focal point contributed to the problem.

SSA had been told to resolve unreconciled employers' reports as early as 1982. Specifically, in a July 1982 report,² the IRS Office of Inspector General addressed itself to the IRS-SSA reconciliation workload for 1978. The inspector general recommended that SSA expedite its review of the 1978 unreconciled employers' reports. SSA responded that "... priority attention will be directed toward appropriate resolution of these cases." However, as of October 1986, SSA had attempted to reconcile only 83,703 of the 580,000 unreconciled 1978 reports.

SSA recognized the overall magnitude of the reconciliation workload and the resource requirements implicit in correcting hundreds of thousands of earnings reports. A July 1984 memorandum from the deputy commissioner, Programs and Policy, to other SSA deputy commissioners stated:

"I am very much concerned that IRS records show SSA has failed to properly credit about 500,000 wage reports every year since we went to annual wage reporting in 1978. As most of these reports are for wage amounts under \$10,000, our failure to post these earnings correctly adversely affects those most in need of Social Security program coverage. Every year, this backlog of discrepant reports grows by another 500,000. This is in addition to the yearly increase in SSA's \$80 billion suspense files.³ Moreover, the longer we delay in trying to correct our records, the less likely it is we will be able to do so. Already, many of these wage reports are so old that

²Annual Wage Reporting Process, Office of Inspector General, Department of Health and Human Services, Audit Control no. 13-22642 (July 30, 1982).

³As noted on pages 10-11, the suspense files had grown to \$100.5 billion: \$94 billion in wages and \$6.5 billion in self-employment earnings (as of October 1986).

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records showing whose earnings they are may be impossible or very difficult to find. And the longer we wait to reconcile these reports, the more adverse reaction we can expect from the public and employers.

"I am concerned about the resource requirements implicit in an effort by SSA to correct hundreds of thousands of wage reports. Yet, I can think of few other areas where a failure by SSA to take action could jeopardize the public's confidence in our administration of the Social Security program. The public must be assured that the work credits they have paid for are being accurately recorded on their earnings records."

One reason for SSA's inaction was that different organizational components had different perspectives that worked against a united, coordinated approach to solving the problem. Two key SSA components had a direct interest in, but different responsibilities for, the reconciliation workload: Systems (responsible for processing the computerized information) and Operations (responsible for contacting employers to resolve the details behind the missing and discrepant reports and processing the employers' reports). Although these organizational components debated the mechanics of addressing the reconciliation workload, the obstacle to resolution was the additional resources that would be needed. The components could reach agreement on the work required, but did not have the resources to carry out the required work. Systems expected Operations to somehow fit this additional unprogrammed work into its existing workload without additional resources—and Operations refused. The acting associate commissioner for central operations expressed the problem in an April 1985 memorandum to the associate commissioner for systems requirements:

"I was quite surprised to receive your subject memorandum which implies with certainty that the IRS-SSA reconciliation will definitely proceed after you have completed your plans and procedures. As we have discussed on numerous occasions, this is an unbudgeted workload estimated as requiring from 158 to 750 workyears, depending upon the degree of systems enhancements. Since we have no [full time equivalents] to complete this workload and since we recently took a substantial cut in our budgeted overtime for this year, I would suggest that you devote your resources toward initiatives we may be able to complete this year."

Further, this dilemma could not be easily resolved by SSA's top management because, at the time of conflict, a deputy commissioner represented each of the components, so all viewpoints had strong support. Another balancing force against SSA's resolution was the interagency agreement itself, which generated internal SSA pressure to insist that IRS do what it had agreed to do. The 6 year reduction by 17,000 staff that

SSA announced in December 1985 created additional pressures for SSA to refrain from committing resources to address the problem.

Despite a realization by SSA and IRS staff at the operational levels that the unreconciled workload continued to grow, top management took no action to resolve the disagreement with IRS or initiate action on its own. Why did SSA's inaction continue for so long, especially in light of its awareness of the effect unreconciled cases could have on individuals and beneficiaries?

As indicated in our March 1987 report on SSA management,² we believe several fundamental management shortcomings underlie SSA's nonresponsiveness. First, frequent changes in leadership tended to cause changes in priorities and complicate efforts to correct longstanding problems. (Since 1978, SSA has had seven different commissioners or acting commissioners.) Second, SSA's organizational structure diffuses accountability, creating an environment that is not conducive to systematically addressing program-related problems; SSA's structure also lacked a high-level focal point for financial management, which hindered progress in resolving the reconciliation problem. SSA's establishment of a chief financial officer position in 1987 should contribute to remedying problems such as the unreconciled workloads. Such an officer is needed to work with program directors and high-level IRS officials so that problems can be addressed within the context of responsible financial management and the best interests of beneficiaries and individuals. Finally, SSA did not have an effective decision-making process to ensure that important problems, such as the unreconciled workload, would surface and be addressed at the commissioner level.

SSA Is Now Reconciling Some Employers' Reports but Has No Plans to Reconcile Others

SSA's November 1985 study of 8,000 employers who seemed to have not reported or underreported 1983 earnings showed the value of contacting employers to resolve differences. The results of the employer contacts are summarized in table 4.2.

² Social Security Administration, Stable Leadership and Better Management Needed to Improve Effectiveness (GAO/HRD-87-39, Mar. 18, 1987).

Chapter 4
Causes of the Problem and Attempts
at Resolution

Table 4.2: Results of Employer Contacts

Dollars in millions

	Wages	Employers
Additional wages recorded in individuals' records	\$121.6	2,629
Wages identified as having been previously recorded by SSA in individuals' records and reconciled with IRS's records	192.9	1,803
Wages not reconciled (employers did not respond)	603.7	1,152
Total	\$918.2	7,984

In commenting on the mailing of inquiries to employers, SSA said:

"The early returns show that mail contacts with employers in the pilot study generate significant postings of wages that would not otherwise have been posted and produce information enabling SSA to reconcile a significant portion of the IRS-SSA discrepancies.

"... it appears that mailings to both categories of employers [namely] those whose wage reports were missing and those who underreported wages, will probably prove to be cost effective."

In December 1985, the acting commissioner of Social Security decided that the entire reconciliation workload needed to be resolved, and directed that a plan be developed to do so. In response, SSA developed a plan for resolving 1983 employers' reports of missing and discrepant earnings. While contacting employers about 1983's reporting problems, SSA also planned to resolve any missing or discrepant reports that employers had during 1978-82. The three-phased plan that SSA developed would address, by the end of 1987, about 1 million of the 3.5 million backlog of 1978 to 1983 unreconciled reports. Employers' responses to SSA's inquiries are, on average, about 50 percent, and SSA, which has no enforcement authority, has no plans to deal with nonresponders.

SSA also decided (1) that about 100,000 employers' earnings reports could be corrected internally without contacting employers by checking those that show employers paid Social Security taxes but did not have related Social Security earnings amounts on the reports and (2) to apply tolerances (amounts of earnings differences SSA considers too small to investigate) so that 723,000 reports would not require contacting employers. SSA does not have a plan to address the remaining 1.7 million employers' reports from 1978 to 1982, nor does it have a plan to resolve about 1 million missing and discrepant reports that IRS either subsequently identified in 1986 (representing 1984) or will identify in 1987 (representing 1985).

Backlog and Future Workloads Not Completely Addressed

SSA's strategy for choosing 1983 as its reconciliation starting point was relatively straightforward: first phase, check the employers' reports that were most current. SSA reasoned that these employers were more likely to still be in business, be easily located, and have records available. This phase, essentially completed in late 1986, concentrated on reconciling 1983 missing reports for 204,558 employers with no prior history of reporting problems; included also were 83,703 employers with the highest SSA-IHS earnings reports differences for 1978. The second phase, begun in October 1986, includes about 670,000 employers who had missing or discrepant reports in 1983 and in at least 1 other year. The final phase is scheduled to begin in October 1987, and will cover about 75,000 employers with discrepant reports for 1983 only.

SSA expects that the unreconciled workload for the next 2 years will be similar to that in the 1978-83 period. Thus, the workload that SSA hopes to eliminate will be replaced by a similar workload; consequently, SSA will have made little progress in reducing the backlog.

We previously reported that SSA

"estimates that it may take as many as 2,500 work years to correct the discrepancies for the years 1978-83 alone. Additional errors have likely occurred in 1984 and 1985 and will continue to occur unless SSA identifies and corrects the cause of the differences. SSA has budgeted a total of only 860 work years in fiscal years 1986-88 to begin efforts to reconcile about 1 million of the 3.5 million employer reports and will have to budget additional work-years in the future if the reconciliation is to be completed."

Tolerances Affect Low- Income Workers Most

SSA has adopted tolerances for the missing and discrepant reports for which no employer contact or reconciliation effort will be attempted. For missing reports, the tolerance will be an amount that is less than the dollar amount needed by an individual for one quarter of coverage (e.g., \$250 in 1978). For 1978 and later discrepant reports, the tolerance will be an amount less than a \$1,785 difference between the amounts reported to IHS and SSA. SSA officials studying the effects of tolerances did not consider the inconsistency in using different amounts for missing and discrepant reports. By applying these tolerances, SSA will exclude 722,908 employers' reports, including 70,421 missing and 652,487 discrepant reports.

¹Stable Leadership and Better Management Needed, GAO/HRD-87-339.

SSA has studied the effect of applying the \$1,785 tolerance amount to employers' reports it receives by comparing W-3 amounts with W-2 amounts. SSA found that quarters of coverage, which affect eligibility, could be lost through the application of a \$1,785 tolerance. SSA also examined the relationship between W-3 errors and W-2 errors to assess the maximum effect on individuals. If a discrepancy of \$1,785 involved only one individual's earnings, the effect on monthly benefits would be about \$9 less a month for an individual earning less than \$12,000 a year and about \$3 less a month for an individual earning more than \$12,000 a year. Of sampled W-3s that did not match the W-2 totals, SSA found that

- 56 percent did not affect any W-2.
- 29 percent affected one W-2.
- 9 percent affected two W-2s.
- 3 percent affected three W-2s, and
- 2 percent affected four or more W-2s.

Further, SSA indicated that the employers' earnings reports most affected by tolerances are likely to represent earnings for low-earning individuals, such as household or migrant workers. The application of dollar tolerances proportionately affects the benefits of the lowest paid individuals to a greater degree than other individuals.

SSA Has No Plans for Addressing Employers Unable or Unwilling to Respond

SSA has not decided how to address employers who cannot or will not respond to SSA's request for information about earnings reports. Some employees may never receive the proper credit for their earnings because of (1) employers' not retaining earnings records, (2) employer dissolution, or (3) the inability of SSA or IRS or both to locate the employer. During its study of 1,424 employers with 1980 or 1981 or both unreconciled earnings reports and 7,984 employers with 1983 unreconciled earnings reports, SSA did not receive a response from 62 percent of the 1,424 and from 45 percent of the 7,984. Similarly, SSA did not receive responses from 48.6 percent of the 204,558 employers with unreconciled 1983 reports and from 58.7 percent of the 83,703 employers with unreconciled 1978 reports.

As the backlogged reports become older, it is more likely that employers will not be able to respond because the records are no longer available. SSA's study of 1,424 sampled employers asked how long employee records were retained. Of the 244 employers (17 percent) responding to this question, 150 (61 percent) said they retain their records 7 years or less. IRS requires employers to keep employment tax records for at least

4 years after the date the tax becomes due or is paid, whichever is later. This suggests that employers' records of employees' earnings from the earliest years of annual wage reporting may not be available even if SSA is successful in locating and contacting the employers. The responses of the 244 employers are summarized in table 4.3.

Table 4.3: Years Employers Retained Earnings Records

Years records retained	Employers (in percent)
3	6.1
4	4.5
5	16.0
6	5.3
7	29.5
8	1.2
9	0.8
10	17.2
11 to 15	2.8
16 to 20	2.0
21 to 25	0.4
Indefinitely	13.9
Total	100.0^b

^aBased on their responses, these employers may not be retaining their employment records as long as IRS requires.

^bTotal does not add due to rounding.

SSA has no plans to alert affected employers to the need to save employees' earnings records, which could be discarded because of the expiration of the record retention period specified by IRS. The number of years that employers retain earnings records affects whether SSA will be able to obtain missing W-2 data for reconciliation. SSA data from employers who responded to SSA's question about records retention show that about 30 percent of employers said they retained employees' records for 7 years; about 32 percent said they retained records less than 7 years; and about 38 percent said they retained records more than 7 years.

In addition, SSA has no enforcement authority; however, the law provides IRS with enforcement authority. Therefore, SSA must either depend on the employer to voluntarily provide the data or depend on IRS to enforce employer reporting requirements. If the employer chooses not to respond, SSA has no direct leverage to require a response, and some employers have refused to cooperate.

Conclusions, Matters for Consideration of the Congress, Recommendations, and Agency Comments

Conclusions

For the great majority of workers, the dual reporting system—which requires employers to report employees' earnings to SSA and IRS—has resulted in employee earnings being properly credited to their Social Security accounts. Differences in amounts employers report to each agency, however, have not been quickly resolved, resulting in backlogs of unreconciled cases. For the years 1978-84, SSA credited \$58.5 billion less in earnings than employers reported to IRS. Although the number of workers affected is not known, we estimate that this backlog of unreconciled differences could affect about 9.7 million workers. To some of these workers who are already beneficiaries, the uncredited earnings mean they are receiving less in benefits than they are entitled to.

SSA is responsible for ensuring that beneficiaries receive proper credit for their earnings. Although SSA agreed to rely on IRS to resolve differences in earnings reported by employers, SSA was slow to respond when subsequent events showed that IRS could not completely fulfill that responsibility. Among the causes were (1) SSA's insistence for some time that IRS comply with the original agreement and, alone, resolve all differences; (2) SSA's organizational structure, which diffuses responsibility for program-related matters and lacked a financial management focal point and perspective; and (3) more recently, the pressures of accomplishing an overall agency staff reduction.

Because SSA and IRS have different missions, it is natural that they will have different perspectives and priorities concerning work that they do for each other. We can understand that from IRS's perspective, reconciling all employers' earnings reports would not be a high priority when resources are limited and there are other more urgent demands. Nevertheless, we are concerned that there are several million individuals and beneficiaries who have paid their Social Security taxes but who do not have the assurance that their earnings have been credited. The government has a responsibility to do the best it can to ensure these individuals get what they are entitled to. Thus far, it has not. Although certain aspects of crediting earnings are currently a responsibility shared by IRS and SSA, we believe that safeguarding the interests of current and future beneficiaries is primarily SSA's responsibility. Nevertheless, IRS should reassess its decision to further delay providing SSA the data it needs to correct certain self-employed individuals' earnings records—some of whom have been receiving less in benefits than they are entitled to.

SSA needs to do a better job of exercising leadership and initiating management initiatives to resolve current backlogs of unreconciled earnings reports. A focal point, such as the newly appointed chief financial

officer, is needed to work closely with the program directors and IRS. More needs to be done to determine (1) the best way to resolve current backlogs in the most efficient manner and (2) the resources that will be required. Criteria for deciding not to resolve certain cases need to be reevaluated considering the potential impact on low-income individuals. Affected employers who might discard earnings records over 4 years old need to be contacted. The need for additional authority to require employers to cooperate in resolving differences must be examined.

The requirement that employers report to both agencies at different times and in different formats may present a formidable challenge that could always result in a considerable workload to resolve differences. One obvious way to eliminate such workloads would be to have employers report to just one agency. However, we believe such an action would be premature because the dual reporting process serves an important internal control function. It provides the government with a mechanism to check on the accuracy of earnings reporting and thereby serves the best interests of beneficiaries, those still working, and the government. Thus the costs and benefits of this control cannot be adequately determined until the causes of earnings differences are better understood and decisions on how to better prevent and reduce their occurrence can be considered. Other alternatives to help ensure the accuracy of earnings reporting, such as providing individuals with annual statements of their earnings, as recorded by SSA, could also be explored.

The current backlog of unreconciled reports dates back to 1978, and differences will continue to occur each year. We believe that firm action is needed to reconcile the current workload and minimize future occurrences. Based on past experience, it may be unlikely that SSA and IRS, without any additional incentives, will be able to agree to a joint approach that will result in a timely reconciliation best serving the interests of all affected individuals and beneficiaries. We believe that the heads of both agencies should be required to develop and present, as soon as possible, a plan of action for key congressional committees that have oversight and resource responsibilities for these agencies. This plan should stipulate the framework for joint agency resolution of unreconciled employers' reports, including specifying when the current workload will be completed, the additional resources required, and what will not get done with the resources currently allocated.

Finally, SSA must decide how and when it will comply with the legal requirement to certify the earnings in its records. A legislative change that would enable Social Security's trust funds to retain tax revenues it

receives, based on what employers report to IRS for tax purposes, may be warranted.

Matters for Consideration of the Congress

Because SSA and IRS have been unable to jointly develop a plan to ensure that all differences in earnings reported by employers are reconciled in a timely manner, the Congress should consider requiring the agencies to submit a plan of action to the congressional committees that have oversight and resource responsibilities for these agencies. Such a plan should specify a time-phased schedule for eliminating the backlog and resolving new discrepancies and any additional resources that will be required.

To provide an incentive for more timely completion of earnings reports reconciliation, the Congress should consider amending section 201(a) of the Social Security Act to specify a time limit, such as the employer earnings record retention period specified by IRS, for the Secretary of HHS to certify earnings. If the Congress chooses not to specify a time limit for certifying earnings, it should consider whether (1) SSA should be required to relinquish trust fund money to general revenue funds for those earnings amounts that employers have reported to IRS, but which SSA has not recorded in its earnings system or (2) the trust funds should be permitted to retain revenues based on IRS-recorded employers' earnings reports.

Recommendations

We recommend that the Secretaries of HHS and the Treasury direct the Commissioners of Social Security and Internal Revenue to work together to

- revise the SSA-IRS interagency agreement to specify what will be reconciled and who will perform and complete the reconciliation;
- develop and pursue a strategy for examining the backlogged and newer cases that emphasizes contacting employers (1) who have multiple years of earnings differences and (2) for whom the IRS record retention period (4 years) has already lapsed or will soon lapse;
- develop and submit a plan of action, before submitting their fiscal year 1989 budget requests, to the congressional committees that have oversight and resource responsibilities for these agencies, specifying (1) a time-phased schedule for eliminating the backlog and resolving new discrepancies and (2) any additional resources that will be required; and
- determine the major causes that result in SSA's and IRS's recording different earnings totals, and take corrective action to prevent their occurrence or reduce their frequency.

We recommend that the Secretary of HHS direct the Commissioner of Social Security to

- require that the chief financial officer serve as the focal point for ensuring that earnings are certified, as required by law; internal controls for the earnings recording system are adequate; and intra-organizational conflicts that hinder reconciliation of earnings reports are resolved;
- assess the actual effect of IRS-SSA reconciliation tolerances on individuals' eligibility and benefits to determine the equity and reasonableness of the tolerances, adopting tolerances—if appropriate—based on this assessment;
- immediately alert employers for whom SSA and IRS have recorded different earnings totals for each year from 1978-82, asking them to retain their employees' earnings records for the year or years that SSA and IRS records indicate are missing or discrepant (thus minimizing the possible loss of data); and
- gather data on employers' unwillingness to respond to requests for verification of employees' prior years' earnings and determine whether enforcement authority for SSA is warranted, considering IRS's ability to provide enforcement assistance.

We recommend that the Secretary of the Treasury direct the Commissioner of Internal Revenue to

- reassess the decision to further delay providing data to SSA for the 1979 earnings of self-employed individuals, which SSA needs to ensure the accuracy of benefit payments.

Agency Comments and Our Evaluation

HHS and IRS generally agreed with the report's recommendations and said they would work together to develop a plan to address the matters discussed in the report. (See apps. I and II.)

HHS Comments

HHS said it concurred with the thrust of the report and that SSA had already initiated efforts to explore the causes of problems and negotiate needed changes with IRS. HHS said it hoped to modify the IRS-SSA agreement to (1) clarify responsibilities and (2) define the commitment of resources to the reconciliation process. HHS also said that SSA will look into all issues raised by the report, develop a plan of action, and report back to us.

HHHS also provided its views on the annual wage reporting system and the retention of trust fund money. HHHS described how the switch to combined annual wage reporting in 1978 had positively affected employers and IRS, but said the switch had done little to enhance SSA's ability to maintain accurate earnings records because it

- created large backlogs of unreconciled earnings data,
- did not give SSA enforcement power over employers who fail to report,
- caused delays in posting earnings data,
- increased the volume of paper SSA had to process, and
- hampered SSA efforts to correct earnings records because of the time it takes IRS to provide a tape of unreconciled cases.

HHHS said that among the solutions it will explore will be encouraging employer reconciliation of the differences in earnings reported to IRS and SSA. HHHS said that any internal control benefits derived from annual wage reporting are secondary in that they were not the reasons behind the legislative change to annual wage reporting.

Concerning SSA's retention of certain trust fund money, we said in our draft report that retention of tax revenues of \$4.7 billion for individuals' earnings of \$37 billion recorded by IRS but not SSA, as of June 1986, was questionable. SSA responded that it was currently entitled to such revenues, based on interim transfers, until a certification of earnings records is made. SSA did not say when it would make such a certification.

We agree that the retention of funds based on interim transfers is appropriate until SSA certifies the earnings it has recorded. However, because certification after a reasonable period is required and adjustments can be made later, we question SSA's unwillingness to certify what it has recorded, retain only the taxes on such earnings, and then make periodic subsequent adjustments if it records additional earnings later.

In our opinion, a reasonable period of time has been exceeded for certifying earnings for the years 1978-82, years for which employers are no longer required to maintain records necessary to reconcile differences in IRS-SSA records. If certification is required after 4 years, about \$2.8 billion for the years 1978-82 would have to be returned to Treasury, based on what SSA had recorded as of March 1987.

IRS Comments

IRS said that it would support SSA's initiatives to reconcile the earnings reports to the extent that such is the intent of the Congress and sufficient resources are provided. IRS did not specify what additional resources would be needed, and said it did not believe the Congress intended that the responsibility for ensuring the accuracy of individual earnings records maintained by SSA and the proper crediting of the Social Security trust funds was to rest with IRS. Rather, the shared responsibility for reconciling missing and discrepant earnings reports was intended to provide each agency with the information it requires. IRS said that it would work with SSA to develop and submit a plan by December 31, 1987, to appropriate congressional committees specifying a time-phased schedule for eliminating the backlog, resolving new discrepancies, and providing any additional resources that would be required.

In its July 21, 1987, comments on a draft of this report, IRS indicated such a goal was attainable in 3 months. We believe IRS should work with SSA to complete the plan by then.

Concerning our recommendation that IRS reassess its decision to delay providing SSA needed data for certain self-employed individuals in 1979, IRS said it would look at the feasibility of doing this before late 1988, but said that its computer resources would be concentrated on implementing changes required by the Tax Reform Act of 1986. Until IRS provides the data to SSA, those affected individuals who paid their Social Security taxes in 1979 (and who are now receiving less than they are entitled to) will continue to be shortchanged an estimated average of \$8 monthly and \$434 cumulatively (based on our measurement in August 1985). It appears that without further direction from the Congress, IRS will most likely not provide the necessary resources to address this matter before late 1988.

Comments From the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

JUL 21 1987

Mr. Richard L. Fogel
Assistant Comptroller General
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

The Secretary asked that I respond to your request for the Department's comments on your draft report, "More Must Be Done To Credit Earnings To Workers' Accounts." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

Richard P. Kusserow
Inspector General

Enclosure

Appendix I
Comments From the Department of Health
and Human Services

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES
ON THE GENERAL ACCOUNTING OFFICE DRAFT REPORT, "MORE MUST
BE DONE TO CREDIT EARNINGS TO WORKERS' ACCOUNTS"

General Comments

The Social Security Administration (SSA) is acutely concerned about the growing number of unreconciled wage reports and the effects of these unreconciled wage data on individual earnings records and the trust funds. We concur with the thrust of the report that more must be done to resolve the annual wage reporting (AWR) problem. SSA has already initiated efforts to explore the causes of the problems in the reconciliation process and to negotiate needed changes with the Internal Revenue Service (IRS). Also, the Commissioner has directed the new Chief Financial Officer to be the focal point for the Agency's efforts to address these issues. His work has already begun. SSA will look into all issues raised in this report, develop a plan of action and report back to the General Accounting Office (GAO). We anticipate a 3-month time frame to complete our analysis, identify the necessary corrective action, and negotiate agreement with IRS. We are confident that these problems can be resolved. However, it is important to realize that the remedy does not rest with SSA alone. Responsibility for establishing an effective process for the reporting and recording of accurate wage data is shared statutorily with IRS, and both agencies benefit from the process. We believe that this GAO report will serve as a positive stimulus towards interagency cooperation and resolution of these problems.

Effectiveness of AWR as an Internal Control

GAO describes the current AWR system as a "...formidable challenge that will always result in a considerable workload of differences" and asserts that the dual reporting process is useful as an internal control to assure accurate wage reporting. We do not believe that the process should be viewed in that context. We are not aware of any internal control or accuracy issues that caused the need for the split in responsibility in 1978. In the instant case, we do not believe that the split responsibility adds to the accuracy of the data or facilitates the effectiveness, or potential effectiveness, of the process. In this case, due to the split in responsibility for the process, the matching of SSA and IRS data is not done as an internal control but rather as a means of making sense of different numbers over different times. Any internal control benefits are surely secondary and are not, and were not, the reasons behind the change to AWR.

To reduce the tax reporting burden of the Nation's employers, Congress enacted Public Law 94-202 in January 1976. This law authorized the combined reporting of detailed Federal and Social Security tax information and employee wage data in one

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consolidated report. Thus, instead of requiring each employer to file five reports per year for each employee, the new law permitted employers to report pertinent data for each employee only once a year. Reporting of quarterly aggregate wage data on Form 941 (Employer's Quarterly Federal Tax Return) is still required.

AWR became effective beginning with wage reports for tax year 1978 for private and Federal employees in the United States. The new law authorized SSA and IRS to enter into a cooperative agreement to implement the provisions of the law. By law, employers are required to submit wage and tax data for each employee to SSA by February 28 of the following year to satisfy the reporting requirements of both agencies. By agreement, SSA's responsibilities include: (1) balancing all Forms W-2 (Wage and Tax Statement) with Form W-3 (Transmittal of Income and Tax Statements); (2) funding for, and annually providing IRS with, a microfilm facsimile of all paper and magnetic media returns and documents received; and (3) providing IRS with magnetic tape files of all wage and tax data received. SSA also provides IRS with weekly updates of validated Social Security number and name data. By agreement, IRS is primarily responsible for the reconciliation of data reported annually to SSA and the aggregate wage data reported quarterly to IRS on form 941. This includes the responsibility for funding and associated costs.

Who stood to benefit by the new system, and have these benefits been realized? Employers obviously benefited by reduced reporting requirements. However, there appears to be considerable confusion on the part of employers as to who gets the report, what to report, and when. SSA is faced with significant processing difficulties due to employer reporting errors and delinquent filers. IRS has benefited by increased tax enforcement capability through the information provided to it by SSA. Under AWR, SSA converts wage data (plus pension data) and tax data to an electronic media format and provides it to IRS. This greatly enhances IRS' ability to identify and collect taxes due.

The switch to AWR has done little to enhance SSA's ability to maintain accurate earnings records. To the contrary, the job has become more complicated. Large backlogs of unreconciled wage data were not part of SSA's experience prior to AWR. As the GAO report acknowledges, SSA has no real enforcement power over employers who fail to report, or who report inaccurately. Penalty authority remains with IRS. SSA has incurred significant delays in posting wage data due to AWR. Most wage data are now sent to SSA the first quarter of the year following the close of the tax year (some reporting does, however, occur throughout that second year) rather than throughout the tax year as was the case under the quarterly system. The change to AWR increased the volume of paper SSA had to process. This was due, in part, to the fact that annual wage reports permit only 3 employee items to be reported by page, as compared to 44 items

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to each page in the former quarterly process. SSA has also been hampered in the correction of its earnings records because of the time it takes IRS to provide SSA with a tape of cases IRS has been unable to reconcile. IRS requires employers to keep copies of W-2s for 4 years; however, IRS does not usually send SSA a tape of unreconciled cases until approximately 3 years after receiving data from the employers. This is a fundamental problem in assuring the accuracy of earnings records under the current process, as employers may not keep records long enough to respond to questions arising from the AWR process.

These conditions have added considerably to the complexity in effectively handling this workload. We believe that the AWR process should be assessed in light of today's environment, including the employers' improved capability for using automated processes for wage reporting. At a minimum, the goal should be to encourage employer reconciliation of annual individual wage data reported to SSA and quarterly aggregate wage data reported to IRS. SSA is committed to exploring these issues with the view of improving the effectiveness of the process and modifying the interagency agreement between IRS and SSA to assure clear delineation of responsibilities and to clarify the commitment of resources devoted to the reconciliation of wage data.

Retention of Monies in Trust Funds

Now on p 4
Now on p 24

We believe that the statements in the Executive Summary (top of page iv) and in the text of the report (paragraph 1 on page 20) regarding the lack of authority to retain tax monies of \$4.7 billion in the trust funds are not properly focused. We do not believe that SSA's actions conflict with section 201(a) of the Social Security Act so as to give rise to GAO's conclusion on page 20 that "...the legal authority for SSA retaining the tax money is questionable." Section 201(a) requires a monthly transfer from the general fund to the trust funds based on estimates of the Secretary of the Treasury. The statute expressly provides that adjustments will be made after the transfer reflecting amounts equivalent to the taxes imposed under the Internal Revenue Code based on certification by the Secretary of Health and Human Services of the amount of wages and self-employment income established in his/her records pursuant to section 201(a)(3) and (4). Until the Secretary of Health and Human Services makes the certification, the statute does not appear to provide for an adjustment of the \$4.7 billion to the trust funds. Hence, we do not believe that a question as to the legality of the trust funds retaining that amount should be raised.

Now on p 26

On pages 22 and 23, GAO concludes that records of wages maintained in the Nondetailed Employer Report File (NERF) should not be used for certification purposes, because such records are not necessarily individual employee records. It appears that GAO arrived at these conclusions based on an incorrect reading and

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Now on pp 25-26

oversimplification of the SSA statement quoted on pages 21-22 of the report. In the quoted statement, we explained the difference between the certification of wages earned before 1978 and the certification of wages for 1978 on. The former was based primarily, but not solely, on individual records. The latter, used for interim purposes only, is based primarily on aggregate employee records.

While we agree in principle that SSA should return to using primarily individual employee data for the certification process, we believe that the trust funds are legally entitled to be funded on the basis of the Social Security taxes that have been or should have been paid on wages in SSA's maintained records. All such wages---whether posted to the proper accounts in SSA's Master Earnings File, the individual item Suspense File, or the NERF---have the potential to be used for the payment of a Social Security benefit. SSA has unquestionable evidence that a liability for Social Security taxes on those wages existed and a very strong indication that in nearly all instances such taxes were in fact paid. Admittedly, when the wages are found in the latter two files, there are evidentiary tests and more manually intensive processes required before they can be posted to individual earnings records. But it is reasonable to argue that the very existence of such activities constitutes the maintenance of records function which the statute requires. We believe that the link between wages used for funding and wages used for benefit payment purposes should be what it was before 1978. To reiterate, prior to that year, wages in the Suspense File were used in the certification process; and they contained both individual and aggregate amounts.

Comments From the Internal Revenue Service



COMMISSIONER

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

Mr. William J. Anderson
Assistant Comptroller General
General Accounting Office
Washington, DC 20548

JUN - 9 1987

Dear Mr. Anderson:

We have reviewed your recent draft report entitled "Social Security: More Must be Done to Credit Earnings to Workers' Accounts".

We generally agree with the report's recommendations. We have enclosed specific comments on each of the recommendations requiring action by the Internal Revenue Service.

We would like to take this opportunity to reiterate some facts that were expressed in previous correspondence with GAO during the investigation which resulted in this draft report. We are not aware of any indication of an intent on the part of Congress, either in statute or legislative history, to impose on the IRS the responsibility for ensuring the accuracy of individual wage records maintained by SSA or for ensuring the proper crediting of the Social Security trust funds. The law appears to specifically contemplate that IRS and SSA would divide responsibility for reconciliation of missing and discrepant wage reports in a manner that would provide each agency with the information it requires. We believe that the current cooperative agreement fulfills the intent of Public Law 94-202.

Now on p. 41

We agree with GAO's assessment (page 47) that SSA should take the initiative to resolve backlogs of unreconciled reports. With this in mind, we agree to assist SSA in reconciling the wage reports, to the extent that such is the intent of Congress and that sufficient resources are provided.

We hope these comments are useful in preparing your final report.

With kind regards,

Sincerely,

A handwritten signature in cursive script, likely belonging to J. Edgar Hoover, written over a horizontal line.

Appendix II
Comments From the Internal Revenue Service

IRS COMMENTS ON GAO DRAFT REPORT ENTITLED
"SOCIAL SECURITY: MORE MUST BE DONE TO
CREDIT EARNINGS TO WORKERS' ACCOUNTS"

Recommend that the Commissioner of Internal Revenue and the Commissioner of Social Security work together to:

Recommendation: Revise the SSA-IRS interagency agreement to specify what will be reconciled, and who will perform and complete the reconciliation.

Comment: We agree with GAO and will work with SSA to review the agreement and refine it as appropriate.

Recommendation: Develop and pursue a strategy for working the backlogged and newer cases, which emphasizes contacting employers (1) who have multiple years of earnings differences and (2) for which the IRS record retention period (4 years) has already lapsed or will soon lapse.

Comment: We agree with GAO and will support SSA, as practical, in their initiatives to reconcile the wage reports.

Recommendation: Develop and submit a plan of action by September 30, 1987, to the congressional committees who have oversight and resource responsibilities for these agencies, specifying (1) a time-phased schedule for eliminating the backlog and resolving new discrepancies and (2) any additional resources that will be required.

Comment: We will work with SSA to accomplish this by December 31, 1987, as noted on page 48 of the report, which we believe is a more realistic deadline.

Recommendation: Determine the major causes that result in SSA's and IRS' recording different earnings totals, and take corrective action to prevent their occurrence or reduce their frequency.

Comment: We will pursue this recommendation with SSA.

Recommend that the Commissioner of Internal Revenue:

Recommendation: Reassess the decision to further delay providing earnings information to SSA for the self-employed individuals whose 1979 self-employed earnings data SSA needs to ensure the accuracy of benefit payments.

Comment: We will look at the feasibility of this recommendation. However, as the report notes (page 34) on March 25, 1987, we indicated to GAO that the earliest we could commit to this work would be sometime in late 1988. While we agree that this is an important concern, our computer resources will be concentrated on implementing the significant changes required by the Tax Reform Act of 1986.

SSA Response to GAO Inquiry of June 11, 1986



THE COMMISSIONER OF SOCIAL SECURITY
BALTIMORE, MARYLAND 21235

DEC 16 1986

Refer to:
SLC

Mr. Joseph F. Delfico
Senior Associate Director,
Human Resources Division
United States General Accounting Office
Room 6739, 441 G Street, NW.
Washington, D.C. 20548

Dear Mr. Delfico:

Enclosed is our reply to your June 11, 1986 letter of inquiry on the reconciliation of wage reports. Please let us know if you need additional information.

Sincerely,

Dorcas R. Hardy
Dorcas R. Hardy
Commissioner
of Social Security

RESPONSE OF THE SOCIAL SECURITY ADMINISTRATION TO THE GENERAL
ACCOUNTING OFFICE LETTER OF INQUIRY ON THE INTERNAL REVENUE
SERVICE AND SOCIAL SECURITY ADMINISTRATION RECONCILIATION OF
WAGE REPORTS

General

This letter of inquiry raises many complex issues related to the reconciliation of wage reports and the impact of reconciliation (or the lack of reconciliation) on individual earnings records and trust fund accounting. The involvement of the General Accounting Office (GAO) in these issues should serve as a catalyst to hasten the resolution of problems inherent in this system that is jointly run yet separately funded.

The Social Security Administration (SSA) is committed to the reconciliation of wage reports. We have negotiated in good faith with the Internal Revenue Service (IRS) over the years to establish a workable process and to minimize any adverse impact on Social Security earnings records and trust funds. As our comments below indicate, our concerns for the growing number of missing and discrepant wage reports accumulating since 1978 (the start of annual wage reporting) has recently prompted SSA to assume an expanded role in the reconciliation process. We believe that the reconciliation process can and must be stabilized. We will continue to work toward that end.

ISSUE 1: IRS-SSA RESPONSIBILITIES AND INTERAGENCY AGREEMENT

- A. What specific responsibilities did the 1978 IRS-SSA cooperative agreement to implement Public Law No. 94-202 give SSA for reconciling missing and discrepant reports? What are IRS' specific responsibilities?

SSA Response

The major responsibilities of SSA detailed in the 1978 cooperative agreement are to:

- Fund for and annually provide IRS with a microfilm facsimile of all paper and magnetic media returns and documents received;
- Release all forms W-2, W-2P, and W-3 information to IRS on magnetic tape in a format provided by IRS;
- Balance all forms W-2 with the W-3s;
- Establish tolerances for Federal Insurance Contribution Act (FICA)-related reconciliation;

- Furnish IRS the reported and processed total of all forms W-2 and W-3 money fields and all out of balance intermediate total records;
- Provide IRS with a form W-2C Correction Tape File quarterly during the processing year; and
- Provide IRS with SSA internally initiated adjustments to employee accounts tape file on a weekly basis.

IRS is responsible for:

- The funding, development costs, and operational costs of the reconciliation between the forms W-2, W-2P, and W-3 data and the wage data reflected on the Business Master File as reported on forms 941, 942, and 943 (941 - Employer's Quarterly Federal Tax Return);
 - Assuring that corrected forms W-2, W-2P, and W-3 submitted by employers as a result of IRS-initiated reconciliation are sent to IRS. IRS reconciliation correspondence will make this clear to the employer (this was necessary because of the change to annual reporting);
 - Providing SSA with a tape file of unreconciled cases involving FICA forms W-2 for tax years 1978 and 1979 (these are the only 2 years the 1978 agreement specifically covers);
 - Matching forms W-2, W-2P and W-3 totals, including those remaining out of balance after the clerical operations, to IRS forms 941, 941E, 942, or 943 data. IRS will generate correspondence to the employer for those cases that remain out of balance after tolerances have been applied and after IRS's reconciliation process; and
 - Providing SSA notification on an ongoing basis of any changes to employers' Employer Identification Numbers (EIN) that are a result of IRS' reconciliation program. Magnetic media specifications for reporting EIN changes to SSA have been determined. The EIN changes will be sent on two tape files (one at the end of the processing year and the other at the end of the first month following the end of the processing year). Any changes discovered from then on will be reported to SSA on paper.
- B. Did the 1979 agreement modification, which provided that responsibilities for reconciliation would be subject to normal budgetary constraints and resource restrictions, change SSA's responsibilities with respect to reconciling missing or discrepant earnings reports? If so, specify how responsibilities changed.

SSA Response

The 1979 modification did not change SSA's (or IRS') specific responsibilities for reconciliation. As the question states, it only provided that reconciliation work would be subject to each organization's normal budgetary processes. In that sense, it placed in question the possibility that either side might not meet its responsibilities due to the lack of resources (see the response to D. below).

- C. What effect have resource and budget limitations had on your Department's performing annual wage reconciliations?

SSA Response

Resource and budget limitations have had no impact on SSA's ability to complete its specific responsibilities under the IRS-SSA interagency agreement. In fact, our concern for the increasing backlog of unreconciled wage reports caused us recently to expand our agreed-upon resource commitment and role in reconciliation as discussed under Issue 3. In further response, see the answer to the following question.

- D. To what extent has the 1979 modification rendered ineffective the agreement's original intent?

SSA Response

The 1979 modification was intended to allow relief to IRS and SSA in the event that budget constraints precluded their ability to fulfill their respective responsibilities as outlined in the agreement. In that the agreement's original intent was to assign responsibilities so that reconciliation would be accomplished, the caveat and its use have significantly delayed the progress of the reconciliation workloads.

- E. Should the interagency agreement be modified to better delineate responsibilities with respect to the reconciliation?

SSA Response

We believe that the interagency agreement is quite specific in its delineation of responsibilities. However, we believe an effective interagency agreement could be achieved by deleting the 1979 modification and including specific reasonable timeframe goals for completion of reconciliation.

ISSUE 2: TRANSFER OF FICA TAX RECEIPTS TO SSA TRUST FUNDS

- A. What is a reasonable time period for the Department of Health and Human Services (HHS) certifying the accuracy of SSA earnings records and for reconciling the Treasury estimates and the earnings records maintained by SSA? Section 201(a) of the Social Security Act (42 U.S.C. Sec. 401(e)) provides, in effect, that the Secretary of the Treasury will estimate the amounts of FICA taxes due on earnings reported to IRS. These estimated amounts are to be transferred from the general fund of the Treasury to the trust funds. To the extent that these estimates are higher or lower than the taxes due on earnings certified by the Secretary, HHS, adjustments are to be made. No timeframe is specified by which this should be accomplished.

SSA Response

Given the problems we have faced with reconciliation since the advent of annual wage reporting, we have no experience upon which to determine what a reasonable time period may be, but we support the development of a reasonable time period goal. (Also, see the response to the following question.)

- B. Should IRS and SSA be required to complete the reconciliation within a specific period? Section 205(c)(4) of the Social Security Act (42 U.S.C. Sec. 405(c)(4)) provides that the Secretary of HHS may correct erroneous wage records prior to the expiration of a "time limitation" after which the records are presumed to be correct. Section 205(c)(1)(B) of the Social Security Act (42 U.S.C. Sec. 405(c)(1)(B)) defines "time limitation" as a period of 3 years, 3 months, and 15 days. Note that IRS requires employers to keep copies of employee W-2s for 4 years and that a tape of unreconciled cases is not sent to SSA by IRS until approximately 3 years after Treasury has transferred the estimated tax receipt amounts to the trust funds.

SSA Response

A reasonable goal should be established and should certainly consider and take account of the "time limitation" mentioned above. As time passes, it becomes more unlikely that employers will have the records necessary to provide information, and it becomes very difficult to locate former employers who have gone out of business. Therefore, the longer it takes to conduct the reconciliation process the less likely it becomes, in many cases, that we will ever be able to determine the correct information.

- C. Must SSA return to the Treasury, trust fund credits for earnings which exceed amounts they are able to certify? Would interest payments also need to be made by SSA to Treasury on such excess amounts?

SSA Response

The Social Security Act (Section 201(a)) requires that the taxes appropriated to the Old-Aged and Survivors Insurance, Disability Insurance, and Hospital Insurance trust funds be determined by the Secretary of the Treasury by applying the applicable rates of tax to wages and self-employment income certified by the Secretary of HHS. The Secretary of HHS is to certify wage data to Treasury based on "records of wages established and maintained" by the Secretary of HHS. The taxes are initially appropriated to the trust funds on an estimated basis. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of taxes actually payable as determined from reported earnings.

For calendar years 1978-1985, adjustments have been made on the basis of wages reported to IRS on form 941. These wage data have been "certified" as interim data. The wages paid in recent years have not been certified to Treasury in the same sense that wages certified before 1978 were certified because the data do not represent individual employee "records maintained and established by the Secretary of HHS." When the earnings are fully certified based on HHS records (finalizing HHS wage data is dependent on the reconciliation process), any excess of the previously appropriated taxes, over and above the taxes determined from the certified earnings, must be returned to the general fund of the Treasury. Similarly, any excess of taxes determined from the certified wages, over and above the previously appropriated taxes, must also be appropriated from the general fund to the trust funds.

Before earnings are certified for any of the years 1978 or later, any remaining unreconciled wage reports will be added to the Nondetailed Employee Report file, a file of undistributed wage items. Any wages in this file will be included in the earnings certified to Treasury. At this time, it is not known whether the certification of earnings for those years will actually result in a return to the general fund or an additional appropriation to the trust funds.

Regarding interest payments, the Social Security Act does not provide for interest payments on the appropriation adjustments. Therefore, they have never been made.

- D. Are the interim tax transfers based on Form 941 data identified as such in the Trustees Annual Report on the Social Security trust funds? Is a potential liability identified in the Annual Report?

SSA Response

The Trustees' Report specifically states that tax appropriations are initially made on an estimated basis, and that periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of taxes actually payable as determined from reported earnings. As noted in the answer to the preceding question, it is not clear whether the certification of earnings in 1978 and later years will result in transfers to the general fund or to the trust funds. Thus, a potential liability or gain is not identified in the Trustees' Report. Both possibilities are implied in the statement described above.

ISSUE 3: PROPER CREDITING OF INDIVIDUALS' EARNINGS

- A. What steps is your Department taking or has your Department planned to ensure that individuals' earnings are properly credited in those instances when IRS and SSA data indicate missing or discrepant employer reports? Are additional steps needed?

SSA Response

SSA has begun a three-phase project to reduce the existing backlog of 3.5 million cases unreconciled for the period 1978-1983. Phase I involves employers who have missing wages in 1983 with no prior years involvement. Approximately 206,000 employers were contacted beginning April 1986; their responses are now being processed by SSA. Additionally, SSA mailed letters to approximately 83,000 employers for 1978 to test the effectiveness of a mailing to employers for early years. Phase II calls for SSA to mail letters beginning October 1986 to employers with missing or discrepant wages both in 1983 and a prior year. Phase III is slated to begin in October 1987 and involves contacting employers with discrepant wages in 1983 only.

The original backlog of 3.7 million items (tax years 1978-1983) has been reduced to 2.8 million through various systems matches (which identified items already completed through the regular process) and application of approved tolerances (which eliminated

items with small money variances). Based on current plans and budgeted resources for fiscal year (FY) 1987, we will have 1.8 million of the 2.8 million backlog remaining at the end of FY 1987. However, we expect accretions to the backlog of 500,000 per year for 1984 and 1985.

SSA has initiated other activities to achieve timely reconciliation of wage reports. An employer contact group has been established to investigate report discrepancies and process sensitive reports brought to its attention. SSA is developing an automated system to match 941 data against wage report data to identify "missing" reports each year. When a wage report has not been received from an employer who has submitted a 941 to IRS, a letter will be generated to the employer. This system, which is targeted for completion in October 1987, will identify missing reports over a year earlier than the current IRS-SSA reconciliation.

Routine resolution of employee correspondence also helps in the reconciliation process. When employees disagree with SSA's earnings records, SSA's normal investigative procedures reveal discrepant and missing wage reports. To correct the employee's earnings record, SSA must also correct the employer's wage report.

IRS and SSA need to match data from their employer files on an ongoing basis. A constant maintenance function in this area could reduce the volume of cases generated for reconciliation. SSA is working with IRS to continue to improve the timeliness in the exchange of data between our two agencies.

- B. Could SSA or HHS be legally liable in an action by a worker to recover additional benefit amounts due as a result of uncredited earnings which could have been corrected through the IRS-SSA reconciliation process?

SSA Response

We believe that the Department and SSA would be liable to pay additional benefit amounts based on correction of earnings records within the Social Security Act's time limitation (3 years, 3 months, and 15 days) or the exceptions thereto but would not be liable if changes could not be made within the statutory time or under its exceptions.

To further explain: If SSA receives an IRS 941 wage data tape before the time limitation runs out and begins an investigation before such limitation expires, the earnings record(s) being investigated can be corrected even after the time limit has run out. (See 20 C.F.R. Section 404.822(e)(1).) After the time limit has run out, there are several exceptions which provide

many opportunities for correcting the earnings records; namely, section 205(c)(5)(C) of the Act, "to correct errors apparent on the face of such records;" section 205(c)(5)(F) of the Act, "to conform his records to tax returns or portions thereof (including information returns and other written statements) filed with the Commissioner of Internal Revenue;" and section 205(c)(5)(H) of the Act, "to include wages paid during any period in such year to an individual by an employer if there is an absence of an entry in the Secretary's records of wages having been paid by such employer to such individual in such period."

When corrections are made, the individual whose earnings record is corrected will have his or her benefits recomputed if the additional earnings would result in an increase in benefit amount. See 20 C.F.R. Sections 404.280 and 404.281(a).

There may be instances, however, where SSA is unable to start an investigation before the time limitation has run out and where no exception to the correction of earnings records after the time limit has elapsed applies. In such a case there would seem to be no basis under the Act for correcting the earnings record.

- C. To what extent are your present and planned resources sufficient to complete annual wage reconciliations and what is your estimate of when the reconciliations for 1978 to the present will be completed?

SSA Response

The FY 1987 budget includes 355 workyears for reconciling problem wage reports. Employers with missing or discrepant reports will be asked to submit correction forms or provide explanations to SSA. SSA will review the responses, make determinations of the correct wage amounts, and take whatever corrective actions are necessary. This reconciliation work began in FY 1986. While completion of the backlog is dependent on future resource availability, our goal is to have the backlog completed by the end of FY 1988.

Reconciliation is a statutorily-required activity. While every activity we undertake or propose to undertake is dependent on funding/resources, it is our obligation to prioritize our work and ensure that our available resources are devoted to fulfilling our statutory mandate ahead of all others. As noted in our General comments, SSA is committed to do all it can to accomplish reconciliation in a timely manner.

IRS Response to GAO Inquiry of June 11, 1986

COMMISSIONER OF INTERNAL REVENUE

Washington DC 20224

NOV 25 1986

Mr. Joseph F. Delfico
Senior Associate Director
Human Resources Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Delfico:

Secretary Baker's office has asked me to review and respond to your June 11, 1986, letter regarding Treasury's responsibilities for reconciling differences in earnings reported by employers to the Social Security Administration (SSA) and the Internal Revenue Service (IRS). First, let me apologize for the delay in responding to your letter. In order to provide the answers to the questions posed, extensive research and coordination was required between IRS, Financial Management Service (FMS) and Treasury's Office of the General Counsel. We have reviewed the background information contained in your letter and agree that it is accurate and consistent with our understanding of the Combined Annual Wage Reporting (CAWR) section of Public Law 94-202 and with the SSA/IRS CAWR agreement of 1978, as revised in 1979, and subsequent letter modifications.

Before addressing the specific questions raised let me discuss the statutory requirements for the CAWR program. The report of the Senate Committee on Finance explained that the purpose of Public Law 94-202 was to reduce the paperwork burden on employers by enabling them to file a single annual wage report for each employee with the SSA to provide them with the necessary information to maintain accurate earnings records for beneficiaries. S. Rep. No. 94-550, 94th Cong., 1st Sess. 9 (December 12, 1975).

In addition, the committee report states that the provision was intended to "provide the Internal Revenue Service and the Social Security Administration with authority which would enable them to enter into an agreement for cooperative processing of a revised annual wage reporting form ... in a manner which would most effectively and efficiently provide each agency with the information it requires." Id.

On the other hand, there is no indication of an intent on the part of Congress, either in the statute or the legislative history, to impose on the IRS the responsibility for ensuring the accuracy of individual wage records maintained by SSA or for ensuring the proper crediting of the Social Security trust funds. The law appears to specifically contemplate that the IRS and SSA would divide responsibility for reconciliation of missing and discrepant wage reports in a manner that would provide each agency with the information that it requires. We believe that the current cooperative agreement fulfills the intent of Public Law 94-202.

Department of the Treasury Internal Revenue Service

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Mr. Joseph Delfico

Now let me respond to each of the questions presented in the three issues of your letter.

Issue 1: IRS - SSA Responsibilities and Interagency Agreement

-- Question: What specific responsibilities did the 1978 IRS - SSA cooperative agreement give IRS and SSA for reconciling missing and discrepant reports?

Answer: The specific responsibilities are elaborated in detail within the 1978 agreement and are too lengthy to list individually. I have provided an overview of these responsibilities below. I understand that complete copies of the 1978 agreement and subsequent revisions have been provided to your staff during their review.

IRS Responsibilities: IRS has responsibility for receiving magnetic tapes of all Forms W-2, W-2P and W-3 processed by SSA. These data are to be matched to the IRS Business Master File of Employer's Quarterly Federal Tax Returns (Forms 941), and the Employer's Annual Tax Return for Agricultural Employees (Form 943) to identify discrepancies between the amounts reported on the employer's W-2's and the Form 941 or 943. Discrepancies include underreporting, overreporting, and non-filing of either the W-2's or the returns. IRS is to resolve, or attempt to resolve, all discrepant case types exceeding SSA established tolerances and provide SSA with employee wage record changes as appropriate.

SSA Responsibilities: SSA has the responsibility for receiving Forms W-2, W-2P and W-3 directly from the employers. Paper forms are to be optically scanned or transcribed onto magnetic tape. The various data are to be balanced and SSN's and names validated for both the paper forms and those filed on magnetic media by the employer. SSA then forwards the reported and processed totals of the Forms W-2, W-2P, and W-3 money fields to IRS in the form of magnetic tape and microfilm.

-- Question: Did the 1979 agreement modification, which provided that responsibilities for reconciliation would be subject to normal budgetary constraints and resource restrictions, change IRS' or Treasury's responsibilities with respect to reconciling discrepant earnings reports? If so, specify how responsibilities changed.

Answer: No. The purpose of the 1979 agreement modification was primarily to clarify and refine the narrative descriptions/definitions of the respective agency's responsibilities. It also expanded the CAWR program to U.S. Possessions and Puerto Rico and to the Employer's Quarterly Tax Return for Household Employees (Form 942). The reference in the 1979 agreement to "budgetary constraints and resource restrictions" was not a change. It was an explicit statement of what is implicit in the statute, i.e., that the agency will carryout its mission to the extent possible within funding appropriated by Congress.

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Mr. Joseph Delfico

-- Question: What effect have resource and budget limitations had on your Department's performing annual wage reconciliation?

Answer: Budget and resource limitations during the last 6 years have resulted in a reconciliation program that varied from a 100% program to a 20% program (e.g. Processing Year 1980 = 100%, Processing Year 1981 = 50%, Processing Year 1982 = 20%, Processing Years 1983 and 1984 = 50%, and Processing Year 1985 = 24%).

-- Question: To what extent has the 1979 modification rendered ineffective the agreement's original intent?

Answer: The 1979 and subsequent agreement modifications have elaborated, clarified and expanded the original agreement. These types of changes were anticipated by Congress as a means to develop an effective and efficient program for both agencies. We believe the 1979 and subsequent changes are not only consistent with the intent of the original agreement but have also made the program significantly more efficient and productive.

-- Question: Is IRS reconciliation of missing and discrepant reports limited by policy or in practice to reports involving potential or probable tax liabilities? If so, is this practice consistent with the terms of the agreement?

Answer: No. Although the agreement provides for SSA established tolerances for Federal Insurance Contribution Act (FICA) reconciliation, the number of discrepant cases worked by each agency is limited by budget and resource constraints and the attendant workload priorities. Once the number of total discrepant case types to be worked has been determined, no restrictions are imposed as to whether the results would be additional tax or a refund.

-- Question: Should the cooperative agreement be modified to better delineate responsibilities with respect to the reconciliation?

Answer: The agreement is a dynamic document and is modified whenever it is determined that further definition, clarification or expansion is needed. We believe this approach will result in any needed modification. In fact, IRS and SSA are currently reviewing the agreement and the modifications in order to provide an updated document.

Issue 2: Transfer of FICA Tax Receipts to SSA Trust Funds

-- Question: What is a reasonable time period for the Department of Health and Human Services (DHHS) to certify the accuracy of SSA earning records and for reconciling the Treasury estimates with the earning records maintained by SSA?

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Mr. Joseph Delfico

Answer: Since no time frame is specified by law, we accept the current certification time period presently being followed by DHHS. Thus the reconciliation to our estimates and any resulting adjustments are made when the information is available to the Financial Management Service.

-- Question: Should IRS and SSA be required to complete the reconciliation within a specified time period?

Answer: The current agreement indicates that IRS will provide SSA a tape of unreconciled cases involving FICA Forms W-2 as of December 31 of the second year following the tax year wage documents being processed. This time period has been in effect since the processing of tax year 1978 wage documents.

-- Question: Must SSA return to the Treasury, trust fund credits for earnings which exceed amounts SSA is able to certify? Would interest payments also need to be made by SSA to Treasury on such excess amounts?

Answer: Yes. Adjustments (upward or downward) must be made to the amounts transferred to the trust funds in accordance with the certified wage reports. The law does not require interest to be paid by the trust funds or by the general fund of the Treasury on these adjustments.

Issue 3: Proper Crediting of Individual's Earnings

-- Question: What steps is your Department making or has your Department planned to ensure that individuals' earnings are properly credited in those instances when IRS and SSA data indicate missing or discrepant employer reports? Are additional steps needed?

Answer: We believe the CAWR reconciliation program as presently carried out under the cooperative agreement meets the intent of Public Law 94-202. Although we know of no additional steps needed in the reconciliation program at this time, we fully expect that the ongoing joint IRS/SSA review of the cooperative agreement will produce any needed modifications.

-- Question: Could IRS or your Department be legally liable in an action by a worker to recover additional benefit amounts due as a result of uncredited earnings which could have been corrected through the IRS-SSA reconciliation process?

Answer: Under the longstanding doctrine of sovereign immunity, actions against the United States may only be maintained with the government's consent. Hawaii v. Gordon, 373 US 57, 58 (1963); United States v. Testan, 424 US 392, 399 (1976); Estate of Watson v. Blumenthal, 586 F. 2d 925 (2d Cir. 1978). Section 204 of the Social Security Act, 42 USC 404, provides for adjustments of overpayments and underpayments of Social Security benefits in accordance with regulations prescribed by

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Mr. Joseph Delfico

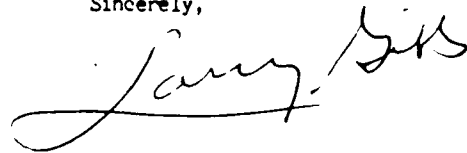
the Department of Health and Human Services. Individuals are entitled to seek review of adverse decisions, irrespective of the amount in controversy, by a civil action commenced within sixty days of the mailing of the notice of decision. 42 USC 405(g). Where Congress has enacted a specific waiver of sovereign immunity, the limitations and conditions upon which the United States consents to be sued must be strictly construed, and exceptions thereto may not be implied. Lehman v. Nakshian 453 US 156, 161 (1981); Soriano v. United States, 352 US 270, 276 (1957); United States v. Sherwood, 312 US 584, 590-591 (1941).

Accordingly, we are of the opinion that neither the Treasury Department nor IRS would be liable in an action by a worker to recover additional benefit amounts due as a result of uncredited earnings which could have been corrected through the reconciliation process. In this regard, the Federal Tort Claims Act, 28 USC 2671 et seq., specifically excludes claims based on the failure to exercise or perform a discretionary function or duty on the part of a federal agency or an employee of the government. 28 USC 2680(a). Since the IRS is not obligated to attempt a complete reconciliation of missing and discrepant wage reports, the Federal Tort Claims Act provides no basis for suit based upon the failure to correct uncredited earnings through the reconciliation process.

I believe the foregoing information responds fully to the points and questions posed in your letter.

With best regards,

Sincerely,



Potential Effect of Uncredited 1980 or 1981 or Both Wages on Social Security Monthly Benefits^a

Effect on monthly benefit amount		Employees	
From	To	Number	Percent
\$ 0.00	\$0.00	2,204	38.6
0.10	0.90	363	6.4
1.00	1.90	377	6.6
2.00	2.90	268	4.7
3.00	3.90	186	3.3
4.00	4.90	184	3.2
5.00	5.90	160	2.8
6.00	6.90	164	2.9
7.00	7.90	146	2.6
8.00	8.90	145	2.5
9.00	9.90	135	2.4
10.00	19.90	672	11.8
20.00	29.90	263	4.6
30.00	39.90	138	2.4
40.00	49.90	86	1.5
50.00	99.90	136	2.4
100.00	499.90	87	1.5
Subtotal		3,510	61.4^b
Total		5,714	100.0

^aSSA calculated monthly Social Security benefits as of January 1984, with and without 1980 or 1981 or both wages that had previously not been credited. GAO calculated the difference in monthly benefits for each employee.

^b Subtotal does not add to figure shown due to rounding.

Note: The average payment impact on monthly benefits for the affected employees was \$17.3.

Potential Effect of Uncredited 1979 Self-Employment Earnings on Social Security Monthly Benefits^a

Effect on monthly benefit amount		Self-employed	
From	To	Number	Percent
\$ 0.00	\$0.00	2,416	35.1
0.10	0.90	636	9.2
1.00	1.90	841	12.2
2.00	2.90	586	8.5
3.00	3.90	411	6.0
4.00	4.90	333	4.8
5.00	5.90	236	3.4
6.00	6.90	187	2.7
7.00	7.90	176	2.6
8.00	8.90	146	2.1
9.00	9.90	115	1.7
10.00	19.90	493	7.2
20.00	29.90	160	2.3
30.00	39.90	78	1.1
40.00	49.90	27	0.4
50.00	99.90	34	0.5
100.00	399.90	19	0.3
Subtotal		4,472	64.9
Total		6,888^b	100.0

^a We calculated monthly Social Security benefits for January, 1984, with and without 1979 self-employment earnings that had been previously uncredited. GAO calculated the difference in monthly benefits for each self-employed person.

^b There were 7,176 self-employed persons whose 1979 self-employment earnings we excluded from their 1979 earnings that had been previously credited to their accounts and hence were not added to their 1979 earnings for Social Security coverage for benefits. Excluding these persons from the total number of self-employed was \$7,500.

END

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