OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

EMPLOYERS WITH THE MOST SUSPENDED WAGE ITEMS IN THE 5-YEAR PERIOD 1997 THROUGH 2001

October 2004 **A-03-03-13048**

AUDIT REPORT

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

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

SOCIAL SECURITY

MEMORANDUM

Date: October 26, 2004 Refer To:

To: The Commissioner

From: Acting Inspector General

Subject: Employers with the Most Suspended Wage Items in the 5-Year Period 1997 through 2001 (A-03-03-13048)

OBJECTIVE

Our objectives were to (1) identify the 100 employers responsible for sending the most wage items to the Earnings Suspense File (ESF) in the 5-year period 1997 through 2001 and (2) identify patterns of errors and irregularities in wage reporting or other reasons for the large number of ESF items for the 100 employers during that time period.

BACKGROUND

The Social Security Administration (SSA) is responsible for maintaining accurate individual earnings records. Employers annually report their employees' earnings on a *Wage and Tax Statement* (Form W-2). When an employee's name and/or Social Security number (SSN) does not match SSA's records, the reported wages cannot be posted to an individual's earnings record and are recorded in the ESF. SSA attempts to match the earnings recorded in the ESF to the individual who earned them, and if successful, post the earnings to the Master Earnings File (MEF).[1] Wages in the ESF can affect an individual's Social Security benefits. Earnings posted to the MEF are used by SSA to determine eligibility for retirement, survivors, disability, and health insurance benefits and to calculate benefit amounts. If earnings are not properly posted to an individual's earnings record, the person will not receive credit for them. As of October 2003, the ESF accumulated about $421 billion in wages and 244 million wage items for Tax Years (TY) 1937 through 2001. The 5-year period in our review represents approximately $200 billion in accumulated wages and about 41 million wage items.

[1] The MEF contains all earnings data reported by employers and self-employed individuals. This data is used to calculate the Social Security benefits due an individual with an earnings record.

This is our third report related to employers responsible for sending the most wage items to the ESF. Our September 1999 audit reviewed wage items submitted to the ESF during TYs 1993 to 1996.[2] Our October 2003 audit assessed the status of the employers we identified in the 1999 audit.[3] See Appendix B for more information on these earlier audits.

Our audit did not include an evaluation of SSA's internal controls over the wage reporting process, nor did we attempt to establish the reliability or accuracy of the wage data. When appropriate, we used the same methodology used in our prior related audits. We provide information on our scope and methodology in Appendix C. The entity audited was SSA's Office of Public Services and Operations Support (OPSOS) under the Deputy Commissioner of Operations and the Office of Earnings, Enumeration and Administrative Systems under the Deputy Commissioner of Systems. We conducted our audit in Baltimore, Maryland and the Office of Audit in Philadelphia, Pennsylvania between August 2003 and March 2004. We conducted our audit in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

Our review found that a small number of identifiable employers account for a disproportionate number of ESF items and wages. The 100 employers identified in our audit were responsible for approximately 7 percent of the total ESF items and about 5 percent of the total ESF wages during the 5-year review period. These 100 employers were mainly in three industries: services, restaurants, and agriculture. We also found that the majority of the employers experienced an increase in suspended wages over the 5-year period. In addition, 20 of the 100 employers had more than 60 percent of their reported wage items in the ESF. Furthermore, a review of more than 5,600 employers showed that 37 percent had at least 60 percent of their TY 2001 wage items in the ESF. The Agency has recently developed the Earnings Data Warehouse (EDW), which should assist SSA personnel in identifying problem employers.

TOP 100 EMPLOYERS FOR TAX YEARS 1997 TO 2001

Our review identified the 100 employers responsible for the most wage items in the ESF for TYs 1997 to 2001. These 100 employers, hereinafter called the "Top 100," account for a disproportionate share of the growth of the ESF. Although about 6.5 million employers annually file wage reports, these Top 100 employers were responsible for approximately 7 percent (2.7 million) of the ESF wage items and about 5 percent ($9.6 billion) of the ESF wages for TYs 1997 to 2001 (see Appendix D). We reviewed the wage reporting trends of these Top 100 employers to determine (1) the industries and States represented by these employers, (2) reporting trends over the 5-year period,

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[2] SSA OIG, *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items* (A-03-98-31000), September 1999.

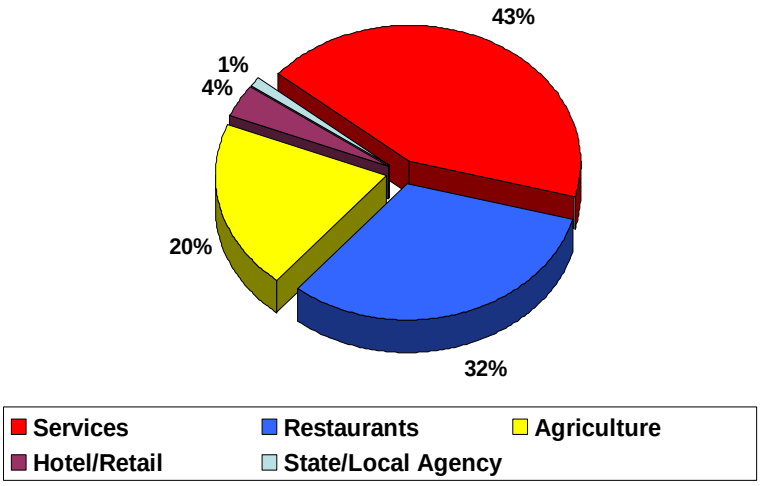
[3] SSA OIG, *Follow-up Review of Employers with the Most Suspended Wage Items* (A-03-03-13026), October 2003.

(3) the percent of their reported wages going into suspense, and (4) the types of errors reported by employers.

Industries and States Represented by Top 100 Employers

Our analysis of the Top 100 employers by industry determined that the highest contributors of items to the ESF were concentrated in three industries: services, restaurants, and agriculture. We found that 95 of the Top 100 employers were in 1 of these 3 industries, representing 2.6 million wage items and over $9.1 billion in wages over the 5-year review period. Forty-three of the Top 100 employers were in the service industry,[4] 32 were in the restaurant industry, and 20 employers were in the agriculture industry.[5] Four of the remaining employers were in the hotel/retail industry, and one was a State agency. See Figure 1 for grouping by industry.

Figure 1: Top 100 Employers by Industry
(TYs 1997 to 2001)



The Top 100 employers were registered with the Internal Revenue Service in 27 States.[6] This address may relate more to payroll issues than the physical location where an employer does most of its business.[7] We found that 54 of the 100 employers had registered addresses in three States – California, Texas, and Illinois – representing

[4] See our report on the service industry in *Management Advisory Report: Review of Service Industry Employer with Wage Reporting Problems* (A-03-00-10022), September 2001.

[5] See our report on the agriculture industry in *Obstacles to Reducing Social Security Number Misuse in the Agriculture Industry* (A-08-99-41004), January 2001.

[6] We used the employer mailing address related to the Employer Identification Number (EIN). The EIN is a 9-digit number assigned by the IRS to sole proprietors, corporations, partnerships, estates, trusts, and other entities for tax filing and reporting purposes.

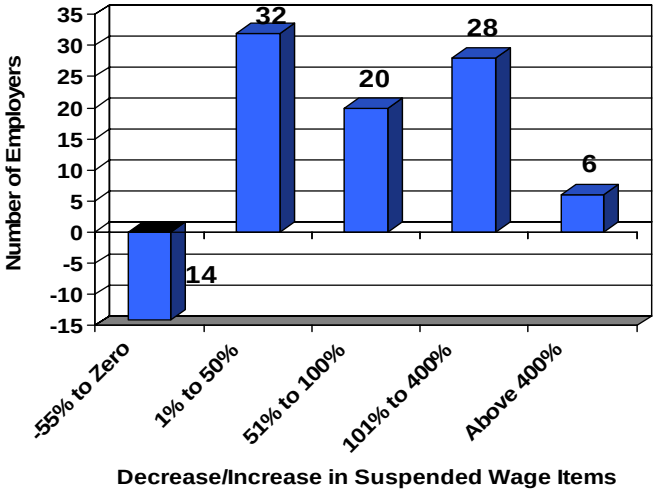
[7] For example, an employer may have a New York address associated with the EIN but have operations in all 50 States.

almost 1.5 million wage items and over $4.8 billion in wages during TYs 1997 to 2001. These 54 employers were responsible for over 3.5 percent of the wage items and 2.4 percent of the wages sent to the ESF by all employers reporting wages in our audit period. California had the highest number of Top 100 employers, with 25 employers representing about 683,000 wage items and approximately $2 billion in wages during our audit period. See Appendix E for an alphabetical listing of Top 100 employers by State.

Increase in Suspended Wage Items

Our review of the Top 100 employer data also found that the average increase in suspended wage items between TYs 1997 and 2001 was approximately 69 percent. An increase or decrease in suspended wage items for a particular employer could occur for a number of reasons, including a change in the number of employees or even the volume of items moved from the ESF to wage earners' records. Overall, we found that 14 employers showed a decrease in the number of wage items reported between TYs 1997 and 2001. However, 86 of the 100 Top employers showed an increase in suspended wage items (see Figure 2). Six employers experienced an increase of 400 percent or more during this timeframe. For example, a Texas employer in the service industry experienced a 1,300 percent increase in suspended wage items over the 5 years. While the employer's payroll also increased during this period, from about 9,000 in FY 1997 to approximately 66,000 in TY 2001 (a 633 percent increase), the increase in suspended items was at a greater rate.

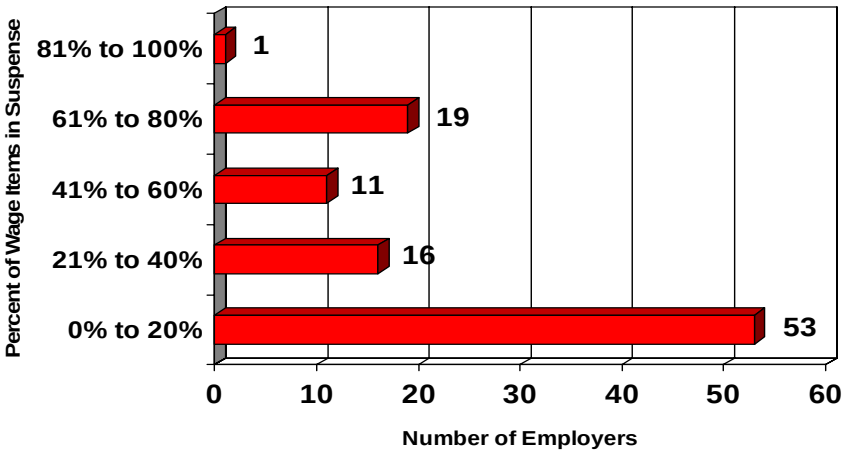
Figure 2: Changes in Suspended Wage Items Among Top 100 Employers (Tax Years 1997-2001)



Percent of Wage Items Sent to the Earnings Suspense File

On average, about 8 percent of the wage items reported by the Top 100 employers during TYs 1997 to 2001 were posted to the ESF. However, 20 of the 100 employers each had over 60 percent of their reported wage items in the ESF. Figure 3 summarizes the percent of reported wage items in the ESF among the Top 100 employers.

Figure 3: Percent of Top 100 Employer Wage Items in the Earnings Suspense File (Tax Years 1997-2001)



This high level of suspended wages could relate to a number of scenarios, including problems with the wage reporting software or a workforce using fraudulent documents. In a March 2001 paper,[8] SSA noted that many suspended items involve the agricultural industry, which has transient employees who may not have work authorizations from the Department of Homeland Security. Other high turnover industries, such as restaurants and other service industries, have similar profiles. Frequent job and residential changes are common with members of these workforces.

Of the 20 employers with more than 60 percent of their wages in suspense, 14 employers were in the agriculture industry, with the remainder from the service industry. In the case of the employer with the worst accuracy, SSA suspended 89 percent of the TY 2001 wage items submitted by an agricultural employer located in Florida.[9] This represented 6,709 of the 7,497 wage items submitted by this employer. Furthermore, these suspended wage items represented about 82 percent of the $28.5 million in wages reported by this employer in TY 2001.

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

[9] We also reviewed the TY 2002 wages reported by this employer, the last year this suspended data was available in SSA's systems, and found that SSA suspended 89 percent of the TY 2002 wage items.

Types of Wage Reporting Errors

Of the wage items reported by the Top 100 employers in TY 2001, approximately 622,000 were posted to the ESF. About 159,000 wage items (26 percent) were reported using unassigned SSNs. Unassigned SSNs have not been issued by SSA, and are referred to as impossible numbers. For example, SSA does not issue SSNs that begin with the number "8" or "9." The remaining 74 percent of the ESF items were reported with legitimate SSNs that could not be associated with the name of the Numberholder on SSA's records.

We looked at other trends, such as duplicate SSNs, as well as potential Individual Taxpayer Identification Numbers (ITIN),[10] to see what other types of errors may have been introduced. We found some items that met this criterion. For example, 18,896 SSNs were used 2 or more times at the same employer.[11] We acknowledge that an employer might issue more than one W-2 to an employee in a given year. Also, we found 1,078 cases where the suspended wage item had a number very similar to an ITIN.[12]

REPORTING ACCURACY AMONG OTHER EMPLOYERS

We also analyzed the wage reporting of all employers with 200 or more wage items in the ESF for TY 2001. In TY 2001, about 6.5 million employers filed wage reports, with approximately 730,000 employers reporting at least one wage item later posted to the ESF. We identified 5,689 employers meeting the 200 or more suspended wage items criteria. These 5,689 employers submitted about 4 million suspended wage items and over $17.2 billion in suspended wages. Although the 5,689 employers meeting our criteria were a very small percentage of both groups (.1 percent of the 6.5 million employers and .8 percent of the 730,000 employers submitting at least one suspended item), they contributed over 41 percent of the wage items and about 30 percent of the wages posted to the ESF for TY 2001.

Our analysis of the employer data also determined that 2,118 of the 5,689 employers (37 percent) had at least 60 percent of their reported wage items posted to the ESF. We provide a breakout of the reporting results of all 5,689 employers in Figure 4.

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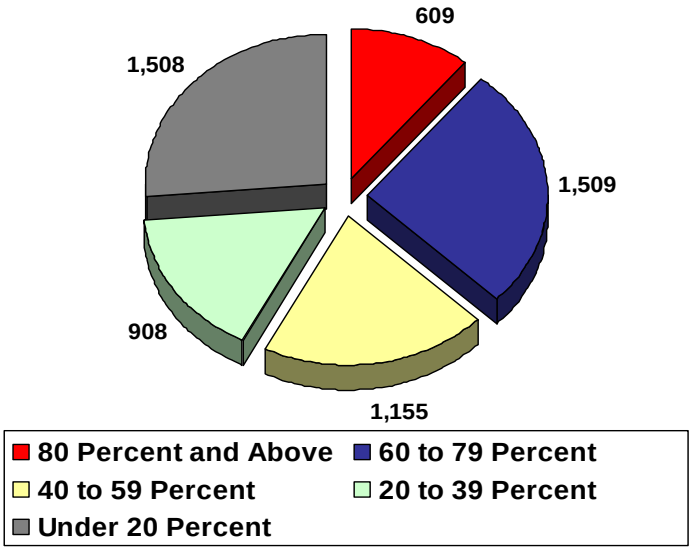
[10] A 1997 memorandum of understating between SSA and the IRS agreed that ITINs would begin with the number "9." An ITIN is a 9-digit number assigned by the IRS to a non-citizen who needs a tax identification number for tax purposes, but is not eligible to be issued an SSN.

[11] Approximately 11,000 of these 18,896 duplicate SSNs were from one employer, a restaurant industry employer located in Kentucky. It appears the employer reversed approximately 5,500 earnings postings, causing both positive and negative wage entries for the same employees.

[12] For more information on reporting trends in the ESF, see our earlier reports, including the *Congressional Response Report: Status of the Earnings Suspense File* (A-03-03-23038), November 2002, as well as reports cited in Appendix H.

Figure 4: Percent of 5,689 Employers' Wage Items in the Earnings Suspense File (Tax Year 2001)



As noted earlier, these reporting accuracy problems can occur for a variety of reasons. However, regardless of the cause, the employees will not get credit for their earnings. A New Jersey labor service employer had 96 percent of its reported TY 2001 wage items, or 2,177 wage items, posted to the ESF. These suspended items represented over $6.8 million in wages that went to the ESF. Another service industry employer, a security guard service in California, had almost 49 percent of its reported wage items posted to the ESF in TY 2001. This employer reported 8,902 wage items, of which 4,321 did not match SSA's records and were posted to SSA's ESF. As a result, this employer posted more than $27 million in wages to the ESF.

SSA CORRECTIVE ACTIONS

Our analysis of reporting trends would assist SSA's Employer Service Liaison Officers (ESLO) in resolving wage-reporting problems.[13] SSA maintains ESLOs in SSA regions throughout the United States to: (1) answer employers' questions on wage reporting submissions; (2) encourage employers to use SSA's various programs, such as the Employee Verification Service; (3) conduct wage-reporting seminars, in partnership with the IRS, for employers, payroll service providers and payroll software companies; and (4) contact employers with significant suspended wage items in their regions. As we noted in our October 2003 audit,[14] each year the OPSOS develops a national listing of

[13] The ESLOs are under the jurisdiction of individual Regional Commissioners, and their job duties vary from region to region. In addition, some ESLOs have wage reporting liaisons to assist them. For example, the Atlanta ESLO office has 11 staff members to assist employers with W-2 filing questions, while the Philadelphia ESLO office consists of one staff member.

[14] SSA OIG, *Follow-up Review of Employers with the Most Suspended Wage Items* (A-03-03-13026), October 2003.

employers who submit 100 or more suspended wage items. These lists are sent to regional ESLOs for follow-up contacts with the employers. SSA does not direct the ESLOs to contact specific employers or follow-up with the ESLOs regarding what contacts were made and the results of the contacts. Nor does OPSOS provide the ESLOs with a listing showing the percent of an employer's payroll posted to the ESF.

Our analysis provides a number of additional ways to review the reporting trends of employers, including changes in the volume of wage items in suspense as well as the percent of an employer's payroll in the ESF. If the ESLOs knew the reporting trends for the employers in their region, it could assist them in focusing their outreach efforts. SSA is developing an EDW, which could provide such statistics to the ESLOs, as well as other useful data. Among other things, the EDW was designed to provide management with trend data on employer wage reporting (see Appendix F). Hence, the EDW should be able to produce a listing of employers showing their wage reporting accuracy.

Employer reporting trends could also be useful to the IRS were it to assess penalties on employers submitting inaccurate names/SSNs in their wage reports.[15] In fact, in August 2002 SSA provided a listing to the IRS of all the employers with more than 100 items in the ESF, and sorted this list by the number of items in suspense as well as percent of payroll in suspense. For more information on the IRS efforts to assess penalties on employers, see Appendix G.

CONCLUSIONS AND RECOMMENDATIONS

SSA needs to maintain continued diligence to slow the growth of the ESF. Many of the largest contributors to the ESF are identifiable within SSA's systems, repeatedly submit inaccurate wage reports, and are in specific industries such as services, restaurants, and agriculture. Directing assistance efforts at the employers with the more significant reporting problems would best use the ESLO's limited resources. SSA's EDW, when fully functional, should be a useful tool in analyzing and resolving wage reporting problems. SSA can develop more meaningful statistics for ESLOs once the EDW is fully functional.

We recommend that SSA:

1. Create centralized EDW reports, after considering ESLO input, that assist ESLOs with identifying problematic employer reporting trends, such as increases in the volume of wage items in suspense as well as the percent of an employer's payroll in the ESF.

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[15] The Internal Revenue Code, 26 U.S.C. § 6721 (2003), allows the agency to penalize employers if they fail to file complete and accurate wage reporting forms. The penalty is $50 per incorrect form, with maximum penalties according to the size of an employer.

2. Ensure ESLOs consider employer reporting trends created by EDW as part of their criteria in identifying employers for assistance through periodic monitoring from Headquarters.

AGENCY COMMENTS

The Agency agreed partially with our first recommendation, stating that it would work with individual ESLOs in determining their reporting needs and requirements including the method of delivery. The Agency stated that the EDW can identify employers with large numbers of ESF items or larger percentages of W-2 data on the ESF. However, identifying the percentage of an individual employer's payroll in the ESF would require systems modifications to the Annual Wage Reporting (AWR) system. These modifications require approval by the Agency's Information Technology Advisory Board.

The Agency also partially agreed with our second recommendation, agreeing to use the EDW when identifying employers requiring wage reporting assistance. In addition, the Agency will continue working with the regional ESLOs in addressing the Agency's ESF goals, but will not directly monitor the ESLOs efforts from Headquarters.

OIG RESPONSE

In regards to our first recommendation, we appreciate that the Agency will work with individual ESLOs in determining their reporting needs and requirements, including the method of delivery. Regarding the systems modifications required to identify specific employer reporting accuracy rates, we feel these modifications would be productive and should be considered. Having the AWR system identify problematic employer trends and sharing this information with the EDW would put useful data in the hands of the EDW customers. One of the stated goals of the EDW is that it will allow users to access different views of earnings data, including analyzing wage reporting data received by SSA.

In reference to our second recommendation, we agree that the EDW will be useful in identifying employers with wage reporting problems. The Agency expects the EDW to provide historical and trend earnings data to support SSA's business needs, and assist SSA in providing quality service to customers. In view of the varying staffing levels and different job duties of the regional ESLOs, we still believe Headquarters should monitor ESLO efforts in this area to ensure employer trends are being considered in their outreach efforts. In addition, such monitoring could assist the various ESLOs to share best practices and other useful information.

Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Background on Earlier Audit Findings

APPENDIX C – Scope and Methodology

APPENDIX D – Top 100 Employers for Tax Years 1997 to 2001-- Earnings Suspense File Wage Items

APPENDIX E – Alphabetical Listing of Top 100 Employers by State

APPENDIX F – Earnings Data Warehouse

APPENDIX G – Status of Internal Revenue Service Efforts to Monitor Employers

APPENDIX H – Prior Office of the Inspector General Reports

APPENDIX I – Agency Comments

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Acronyms

EDW	Earnings Data Warehouse
EIN	Employer Identification Number
ESF	Earnings Suspense File
ESLO	Employer Service Liaison Officer
ITIN	Individual Taxpayer Identification Number
IRS	Internal Revenue Service
MEF	Master Earnings File
OIG	Office of the Inspector General
OPSOS	Office of Public Services and Operations Support
SSA	Social Security Administration
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year
U.S.C.	United States Code

Forms:

W-2	*Wage and Tax Statement*
W-4	*Employee's Withholding Allowance Certificate*

Background on Earlier Audit Findings

TOP 100 AUDIT FINDINGS, SEPTEMBER 1999

In our September 1999 audit,[1] we noted that 84 of the 100 employers experienced increases in suspended wage items over the 4-year period, Tax Years (TY) 1993 to 1996, including 27 employers with increases of 100 percent or more.

Patterns of reporting errors and irregularities exhibited by the 100 employers included the following.

- Ninety-six employers reported 109,360 Social Security numbers (SSN) never issued by the Social Security Administration representing about $298.5 million in suspended wages.

- Thirty-six employers reported 3,127 of the 109,360 unassigned SSNs as "000-00-0000."

- Ninety-four employers reported duplicate mailing addresses for 3 or more employees, involving 72,770 suspended *Wage and Tax Statements* (Form W-2) or 21 percent of the 340,922 suspended wage items for these employers in 1996. Suspended wages involving duplicate addresses totaled about $193.7 million.

- Eighty-six employers reported 3 or more consecutively numbered SSNs involving 4,910 W-2s and $14.4 million in suspended wages. We defined consecutive SSNs as those where the first six digits were identical.

- Sixty-nine employers reported 16,742 identical W-2s, representing $31.1 million in suspended wages, that were used 2 or more times by employees working for the same employer.

[1] SSA OIG, *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items* (A-03-98-31000), September 1999.

TOP 100 FOLLOW-UP AUDIT FINDINGS, OCTOBER 2003

Our 2003 Office of the Inspector General follow-up audit analyzed the wage reporting of the original Top 100 employers for TYs 1997 to 2000.[2] We found that of the original 100 employers identified in the prior review, 40 were still among the Top 100 employers with the most suspended wage items and the remaining 60 were not. Of the 60 employers no longer on the Top 100 listing, 14 had increased wage reporting accuracy, 19 had decreased wage reporting accuracy, and the remaining 27 employers did not have sufficient wage items in the follow-up period to calculate their reporting accuracy. We found that some of the employers no longer on the Top 100 list were reporting their wages under different Employer Identification Numbers.[3] In addition, it is possible that some of these employers were no longer in business.

[2] SSA OIG, *Follow-Up Review of Employers with the Most Suspended Wage Items* (A-03-03-13026), October 2003.

[3] The Employer Identification Number is a 9-digit number assigned by the Internal Revenue Service to sole proprietors, corporations, partnerships, estates, trusts, and other entities for tax filing and reporting purposes.

Scope and Methodology

To meet our objectives, we performed the following steps.

- Reviewed prior Social Security Administration (SSA) Office of the Inspector General and Treasury Inspector General for Tax Administration reports and other materials related to the Earnings Suspense File (ESF) and inaccurate wage reporting.

- Reviewed SSA policies and procedures for maintaining individual earnings records and contacting employers with suspended wages.

- Created a new Top 100 list of employers using the same criteria used in our two prior Top 100 reports. We identified all employers who contributed 200 or more wage items to the ESF in each of the 5 years in our review, Tax Years (TYs) 1997 to 2001. We found 1,565 employers met this criterion. Using this data, we selected the 100 employers who had the most suspended wage items in our 5-year review period. We then obtained the total dollar amounts associated with the suspended wage items. Finally, we obtained the total number of 1) wage items and 2) wages reported by these 100 employers for the 5-year review period.

- Identified the total number of employers with 200 or more ESF items for only TY 2001 and obtained similar data for these firms. There were 5,689 employers meeting this criterion.

- For both employer groups above, calculated the percentages of reported 1) wage items and 2) wages posted to the ESF for each of the employers. For the Top 100 employers, we also identified the number of assigned and unassigned Social Security numbers (SSN) reported in TY 2001, and other wage reporting trends and irregularities.

- Reviewed available information pertaining to SSA's Earnings Data Warehouse (EDW) and interviewed SSA employees involved in administrating the EDW.

- The following are some important factors regarding the methodology used in our review that need to be considered:

  - The list is based on wage items reported under an Employer Identification Number (EIN), and some employers report under multiple EINs. Hence, while the trends noted in the audit relate to the EIN, they do not necessarily give a complete picture of the employer. However, SSA's systems maintain the wage data under EINs and do not allow us to focus on individual employers. As a

result, the audit is identifying the 100 EINs with the most suspended wage items and not necessarily the 100 employers with the most suspended wage items.

- Employers are allowed to switch their EINs for wage reporting. As a result, we found instances where wages were reported under different EINs over the 5-year period. If a company switched EINs between 1997 and 2001, it may have failed to report over 200 items in a particular year under a specific EIN and, therefore, never have made the Top 100 employer listing.

- Some employers are on the list because of their employment volume rather than significant problems with their reporting accuracy. For example, some employers are reporting only 1 percent of their employees with name/SSN mismatches, but they are on the list because 1 percent of their total payroll is a large number. These employers may not have the same underlying problems as a smaller employer reporting as much as 85 percent of its payroll in error.

- Our audit did not include an evaluation of SSA's internal controls over the wage reporting process. The purpose of our review was to determine how SSA used the wage reporting data the Agency had accumulated. We did not focus our efforts on the collection of wage reporting data, nor did we attempt to establish the reliability or accuracy of such data. In prior audits, we reviewed the completeness and accuracy of the ESF postings,[1] and tested that accuracy of ESF data that was reinstated to correct earnings records.[2]

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

[2] SSA OIG, *Effectiveness of the Social Security Administration's Decentralized Correspondence Process* (A-03-01-11034), June 2002, and SSA OIG, *Effectiveness of the Social Security Administration's Earnings After Death Process* (A-03-01-11035), August 2002.

Top 100 Employers for Tax Years 1997 to 2001-- Earnings Suspense File Wage Items

		TAX YEARS (TY) 1997-2001 EARNINGS SUPSENSE FILE (ESF) WAGE ITEMS			TYs 1997-2001 ESF WAGES		
RANK	STATE	SUSPENDED WAGE ITEMS	REPORTED WAGE ITEMS	SUSPENDED ITEMS AS PERCENT REPORTED ITEMS	SUSPENDED WAGES	REPORTED WAGES	SUSPENDED WAGES AS A PERCENT OF REPORTED WAGES
1	IL	131,991	1,130,180	11.68%	$524,933,538	$5,454,058,505	9.62%
2	TX	108,302	737,716	14.68%	$532,964,026	$3,059,859,452	17.42%
3	FL	106,073	379,741	27.93%	$249,952,871	$860,746,129	29.04%
4	NY	86,243	1,041,002	8.28%	$467,508,085	$4,405,111,915	10.61%
5	CA	76,857	373,784	20.56%	$358,907,957	$1,962,480,891	18.29%
6	CA	66,103	1,028,743	6.43%	$130,438,417	$2,078,211,324	6.28%
7	MI	56,705	3,012,716	1.88%	$176,089,925	$13,343,514,290	1.32%
8	KY	50,455	564,788	8.93%	$226,043,907	$2,540,935,442	8.90%
9	CA	50,027	659,162	7.59%	$178,083,256	$1,769,734,446	10.06%
10	SC	49,158	446,794	11.00%	$220,172,981	$1,824,878,432	12.07%
11	GA	45,749	232,441	19.68%	$151,314,908	$1,207,707,941	12.53%
12	OK	43,375	1,227,614	3.53%	$117,983,189	$2,592,833,629	4.55%
13	CA	39,171	49,978	78.38%	$80,219,973	$113,496,931	70.68%
14	NJ	37,302	73,236	50.93%	$50,626,511	$94,771,503	53.42%
15	CA	36,458	141,088	25.84%	$178,514,463	$685,649,213	26.04%
16	NM	36,455	425,714	8.56%	$147,551,907	$2,007,214,843	7.35%
17	MN	36,438	211,025	17.27%	$134,093,065	$877,849,500	15.28%
18	KY	36,002	738,765	4.87%	$67,310,457	$1,953,214,169	3.45%

RANK	STATE	TYs 1997-2001 ESF WAGE ITEMS			TYs 1997-2001 ESF WAGES		
		SUSPENDED WAGE ITEMS	REPORTED WAGE ITEMS	SUSPENDED ITEMS AS PERCENT REPORTED ITEMS	SUSPENDED WAGES	REPORTED WAGES	SUSPENDED WAGES AS A PERCENT OF REPORTED WAGES
19	CA	34,521	91,383	37.78%	$74,307,690	$225,371,469	32.97%
20	CA	33,016	44,330	74.48%	$50,000,341	$84,465,712	59.20%
21	TX	32,808	172,585	19.01%	$156,643,844	$1,067,378,798	14.68%
22	IL	32,264	49,180	65.60%	$85,954,651	$121,477,291	70.76%
23	TX	32,189	125,629	25.62%	$165,256,150	$775,225,403	21.32%
24	CA	31,171	55,967	55.70%	$54,497,262	$119,982,663	45.42%
25	OH	30,592	249,481	12.26%	$127,561,745	$1,185,613,393	10.76%
26	OH	28,317	181,790	15.58%	$108,638,471	$796,052,266	13.65%
27	TX	27,691	151,985	18.22%	$128,225,077	$892,156,521	14.37%
28	NJ	27,477	57,264	47.98%	$32,499,346	$65,336,355	49.74%
29	CA	27,283	39,100	69.78%	$27,833,987	$43,537,978	63.93%
30	IL	27,229	48,157	56.54%	$42,931,023	$64,346,640	66.72%
31	CA	27,018	44,170	61.17%	$38,311,364	$77,903,387	49.18%
32	IL	26,765	45,128	59.31%	$46,234,639	$72,645,670	63.64%
33	TX	25,327	97,525	25.97%	$59,367,779	$241,128,563	24.62%
34	TN	25,300	572,229	4.42%	$106,005,077	$2,325,217,499	4.56%
35	MN	25,292	1,851,420	1.37%	$134,128,618	$13,050,799,269	1.03%
36	LA	25,175	164,887	15.27%	$92,689,698	$1,386,988,524	6.68%
37	UT	24,827	435,698	5.70%	$67,498,582	$897,669,216	7.52%
38	AR	24,780	5,402,408	0.46%	$92,649,911	$66,317,739,626	0.14%
39	MI	24,734	2,923,056	0.85%	$110,868,849	$19,303,859,259	0.57%
40	TX	24,363	203,148	11.99%	$69,517,833	$709,268,403	9.80%
41	FL	24,071	36,100	66.68%	$71,614,446	$162,686,812	44.02%
42	MN	22,105	77,466	28.54%	$94,243,226	$358,551,597	26.28%
43	TX	22,039	125,792	17.52%	$33,503,735	$171,666,996	19.52%
44	IL	22,016	63,342	34.76%	$51,471,182	$106,569,395	48.30%
45	KS	21,843	96,681	22.59%	$113,278,658	$583,765,393	19.40%
46	CA	21,840	1,704,612	1.28%	$56,996,483	$4,939,817,412	1.15%
47	FL	21,565	26,589	81.10%	$58,506,183	$81,369,797	71.90%

RANK	STATE	TYs 1997-2001 ESF WAGE ITEMS			TYs 1997-2001 ESF WAGES		
		SUSPENDED WAGE ITEMS	REPORTED WAGE ITEMS	SUSPENDED ITEMS AS PERCENT REPORTED ITEMS	SUSPENDED WAGES	REPORTED WAGES	SUSPENDED WAGES AS A PERCENT OF REPORTED WAGES
48	CA	21,434	69,801	30.71%	$86,028,370	$297,523,822	28.91%
49	WI	21,338	306,933	6.95%	$76,072,109	$1,266,839,399	6.00%
50	CA	21,131	28,495	74.16%	$29,708,493	$43,729,831	67.94%
51	CA	20,942	31,441	66.61%	$30,295,464	$50,710,962	59.74%
52	GA	20,793	52,766	39.41%	$113,532,115	$440,624,450	25.77%
53	IL	20,743	28,784	72.06%	$43,087,003	$51,785,583	83.20%
54	CA	20,538	48,062	42.73%	$104,880,153	$341,597,132	30.70%
55	TX	20,074	40,643	49.39%	$33,209,528	$52,444,376	63.32%
56	SC	19,573	325,503	6.01%	$65,283,165	$890,684,834	7.33%
57	CA	19,230	29,618	64.93%	$53,804,244	$93,379,479	57.62%
58	CA	19,193	68,891	27.86%	$95,525,517	$338,892,248	28.19%
59	NE	18,852	572,610	3.29%	$197,524,222	$10,190,535,407	1.94%
60	IA	18,311	29,810	61.43%	$112,317,486	$190,915,072	58.83%
61	TX	18,231	224,823	8.11%	$88,328,269	$550,553,331	16.04%
62	OR	18,228	249,328	7.31%	$68,088,754	$1,206,511,726	5.64%
63	IL	17,619	75,934	23.20%	$106,111,838	$512,961,361	20.69%
64	WA	17,560	26,511	66.24%	$30,271,870	$57,705,452	52.46%
65	GA	17,483	186,864	9.36%	$87,697,567	$699,192,720	12.54%
66	OH	17,208	29,244	58.84%	$31,554,686	$45,284,480	69.68%
67	TX	17,173	189,580	9.06%	$88,591,505	$821,726,171	10.78%
68	CA	17,084	22,202	76.95%	$37,128,171	$55,914,654	66.40%
69	CA	17,075	52,010	32.83%	$70,441,404	$224,983,732	31.31%
70	CA	16,627	289,309	5.75%	$46,958,992	$795,669,604	5.90%
71	TX	16,378	97,089	16.87%	$178,348,327	$1,299,143,399	13.73%
72	NY	16,358	575,812	2.84%	$69,413,980	$4,207,135,059	1.65%
73	IL	16,036	22,196	72.25%	$28,469,976	$37,691,291	75.53%
74	AZ	15,983	44,092	36.25%	$26,651,514	$74,839,982	35.61%
75	TN	15,982	300,603	5.32%	$70,641,087	$1,133,336,167	6.23%
76	TX	15,368	88,829	17.30%	$43,302,291	$191,461,709	22.62%
77	CO	15,162	136,473	11.11%	$65,223,596	$609,410,678	10.70%

RANK	STATE	TYs 1997-2001 ESF WAGE ITEMS			TYs 1997-2001 ESF WAGES		
		SUSPENDED WAGE ITEMS	REPORTED WAGE ITEMS	SUSPENDED ITEMS AS PERCENT REPORTED ITEMS	SUSPENDED WAGES	REPORTED WAGES	SUSPENDED WAGES AS A PERCENT OF REPORTED WAGES
78	NC	14,838	142,574	10.41%	$51,128,279	$444,079,652	11.51%
79	IL	14,837	169,216	8.77%	$45,186,039	$332,182,151	13.60%
80	OH	14,663	363,370	4.04%	$56,211,919	$1,420,890,805	3.96%
81	TX	14,427	57,732	24.99%	$32,085,397	$194,829,259	16.47%
82	WA	14,091	19,188	73.44%	$62,417,898	$95,377,435	65.44%
83	IL	14,084	151,718	9.28%	$42,230,961	$454,119,213	9.30%
84	KY	13,995	99,378	14.08%	$66,956,795	$403,722,642	16.58%
85	FL	13,885	226,478	6.13%	$40,574,714	$1,035,839,885	3.92%
86	AZ	13,884	47,377	29.31%	$20,808,702	$87,733,844	23.72%
87	IL	13,783	17,701	77.87%	$39,330,630	$51,017,775	77.09%
88	TX	13,557	70,838	19.14%	$47,308,192	$423,719,604	11.16%
89	CA	13,300	17,865	74.45%	$14,288,211	$20,433,897	69.92%
90	KS	13,287	66,128	20.09%	$47,981,007	$333,377,827	14.39%
91	IL	13,276	23,847	55.67%	$27,571,231	$43,950,856	62.73%
92	CA	13,247	30,304	43.71%	$61,045,644	$179,984,258	33.92%
93	TX	13,240	332,336	3.98%	$36,501,214	$834,034,845	4.38%
94	WI	13,237	1,175,323	1.13%	$41,946,282	$3,752,404,573	1.12%
95	NJ	13,214	242,652	5.45%	$86,788,484	$2,865,070,097	3.03%
96	CA	13,184	67,266	19.60%	$91,567,382	$463,255,984	19.77%
97	IL	13,137	20,457	64.22%	$21,518,488	$38,221,253	56.30%
98	CA	13,063	17,704	73.79%	$29,606,997	$45,380,211	65.24%
99	CA	12,993	22,988	56.52%	$13,135,799	$32,267,508	40.71%
100	IL	12,951	301,071	4.30%	$72,301,907	$2,553,107,310	2.83%
Totals		***2,728,362***	***35,539,356***	***7.68%***	***$9,570,929,156***	***$205,939,044,856***	***4.65%***

Alphabetical Listing Top 100 Employers by State

State	Number of Employers	Total Suspended Wage Items	Total Suspended Wages
ARIZONA	2	29,867	$47,460,216
ARKANSAS	1	24,780	$92,649,911
CALIFORNIA	25	682,506	$1,992,526,035
COLORADO	1	15,162	$65,223,596
FLORIDA	4	165,594	$420,648,214
GEORGIA	3	84,025	$352,544,591
ILLINOIS	14	376,731	$1,177,333,106
IOWA	1	18,311	$112,317,486
KANSAS	2	35,130	$161,259,665
KENTUCKY	3	100,452	$360,311,159
LOUISIANA	1	25,175	$92,689,698
MICHIGAN	2	81,439	$286,958,774
MINNESOTA	3	83,835	$362,464,910
NORTH CAROLNA	1	14,838	$51,128,279
NEBRASKA	1	18,852	$197,524,222
NEW JERSEY	3	77,993	$169,914,341
NEW MEXICO	1	36,455	$147,551,907
NEW YORK	2	102,601	$536,922,065
OHIO	4	90,780	$323,966,821
OKLAHOMA	1	43,375	$117,983,189
OREGON	1	18,228	$68,088,754
SOUTH CAROLINA	2	68,731	$285,456,146
TENNESSEE	2	41,282	$176,646,164
TEXAS	15	401,167	$1,693,153,169
UTAH	1	24,827	$67,498,582
WASHINGTON	2	31,651	$92,689,767
WISCONSIN	2	34,575	$118,018,390
TOTALS	***100***	***2,728,362***	***$9,570,929,156***

Note: For each of the Top 100 employers, we used the employer mailing address related to the Employer Identification Number (EIN). The EIN is a 9-digit number assigned by the IRS to sole proprietors, corporations, partnerships, estates, trusts, and other entities for tax filing and reporting purposes. This address may relate more to payroll issues than the physical location where an employer does most of its business.

Earnings Data Warehouse

The Social Security Administration (SSA) has developed the Earnings Data Warehouse (EDW), a management information system to assist tracking employer wage reporting. Users include the following SSA components:

- Office of Central Operations;
- Wilkes-Barre Data Operations Center;
- Deputy Commissioner for Finance, Assessment and Management; and
- Employer Service Liaison Officers.

The EDW is a relational database system using online processing tools to access different views of earnings data. The EDW provides historical and trend data to assist components:

- Analyze corrective actions and errors;
- Analyze wage reporting data received by SSA;
- Support the electronic filing initiative, marketing efforts, and outreach programs; and
- Manage their workload.

The management information data stored in the EDW is based on the detailed data housed in the Earnings Management Information Operations Data Store.

The EDW is being implemented in two phases. Currently, EDW is in phase one, which is the submission level. At this level, EDW contains information about the companies that submit data such as the number of *Wage and Tax Statements* (Form W-2). The next phase, the employer level, is expected to be available in 2004 and will contain information from Tax Year 1998 forward. The employer level will contain additional information about the individual employers, including addresses, the type of media used to report earnings information, incorrect Social Security numbers (SSN), invalid SSNs, young children's earnings,[1] earnings after death,[2] and various statistical data.

[1] Young children's earnings are earnings reported to SSA under an SSN where SSA's records indicate the Numberholder of the SSN is a child age 6 or younger. These earnings are placed in the Earning Suspense File (ESF) and investigated by SSA.

[2] Earnings after death are earnings reported to SSA for an SSN where the Numberholder is deceased according to SSA's records. These earnings are placed in the ESF and investigated by SSA. Our August 2002 audit report *Effectiveness of SSA's Earnings After Death Process* (A-03-01-11035) contains more information on this subject.

Status of Internal Revenue Service Efforts to Monitor Employers

Title II of the Social Security Act requires the Social Security Administration (SSA) to maintain records of wages employers pay to employees, but does not give SSA the authority to enforce accurate wage reporting. The Internal Revenue Service (IRS) has that authority through its power to levy monetary penalties. The Internal Revenue Code allows the Agency to penalize an employer if it fails to file a complete and accurate wage reporting form.[1] The penalty is $50 per incorrect form, with a $250,000 annual limit. For businesses with average receipts of not more than $5 million, the limit is $100,000 yearly.[2] To date, the IRS has yet to assess monetary penalties against employers filing inaccurate *Wage and Tax Statements* (Form W-2).[3]

In recent congressional testimony, the IRS Commissioner noted that his Agency reviewed the records of employers who had submitted a large number of wage items to SSA's Earnings Suspense File (ESF).[4] In his testimony, the Commissioner stated that employers are required to exercise due diligence in collecting an employee's Social Security number (SSN) and obtaining information from an employee on an *Employee's Withholding Allowance Certificate* (Form W-4). Employers can, but are not required to, ask for proof of the SSN reported on form W-4 and validate the SSN using SSA's Employee Verification Service (EVS).[5]

The IRS also conducted compliance checks of 78 employers. These 78 employers were selected from a list of employers provided by SSA that had the highest volume

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[1] 26 U.S.C. § 6721 (2003).

[2] See id. The gross receipts test is met when, for any calendar year, the average annual gross receipts for the most recent 3 taxable years do not exceed $5 million. In addition, any reference to an entity includes a reference to any predecessor of that entity, and, the Internal Revenue Code allows for exceptions if the errors are due to reasonable cause.

[3] The Treasury Inspector General for Tax Administration (TIGTA) estimated that the IRS could have assessed penalties between $26.0 million and $29.7 million against 93 employers in TY 1997 and an additional 98 employers in TY 1998. For more information on TIGTA's September 2002 audit report, see *The Internal Revenue Service Does Not Penalize Employers that File Wage and Tax Statements with Inaccurate Social Security Numbers* (Ref. Number 2002-30-156).

[4] *Individual Taxpayer Identification Numbers and Social Security Number Matching* Prepared Testimony of Mark E. Evers, Commissioner of Internal Revenue, before the House Ways and Means Subcommittee on Oversight and Subcommittee on Social Security, March 10, 2004.

[5] EVS is a voluntary service designed to ensure that employees' names and SSNs are valid before the employees' W-2s are submitted to SSA. Our September 2002 audit report *The Social Security Administration's Employee Verification Service for Registered Employers* (A-03-02-22008) provides detailed information on the EVS process.

and/or highest percentage of W-2s that did not match SSA's records. Of these 78 employers, 50 were large employers with a high number of ESF items. The IRS concluded all 50 of these employers had programs and processes for obtaining information for Forms W-4 and using the information in preparing individuals' W-2s. These employers also had processes in place for re-soliciting required information upon receipt of a no-match letter from SSA. Based on the IRS's analysis, no penalty potential was identified for these 50 employers.[6]

The remaining 28 of the 78 employers were smaller companies, generally issuing less than 1,000 W-2s but with error rates of 93 percent and above. The IRS analysis showed that these employers frequently used day labor and had high employee turnover. Like the larger employers, the smaller companies obtained W-4s, used the W-4 information to prepare W-2s, and attempted to correct information upon receipt of a no-match letter from SSA. The IRS analysis concluded that there was no potential for penalties for these employers.[7]

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[6] *Individual Taxpayer Identification Numbers and Social Security Number Matching* Prepared Testimony of Mark E. Evers, Commissioner of Internal Revenue, before the House Ways and Means Subcommittee on Oversight and Subcommittee on Social Security, March 10, 2004.

[7] Ibid.

Prior Office of the Inspector General Reports

Social Security Administration, Office of the Inspector General
Reports Related to the Earnings Suspense File

Common Identification Number	Report Title	Date Issued
A-03-02-22076	*Utility of Older Reinstated Wages from the Earning Suspense File*	December 2003
A-03-03-13026	*Follow-up Review of Employers with the Most Suspended Wage Items*	October 2003
A-03-03-24048	*Congressional Response Report: Use and Misuse of the Social Security Number*	August 2003
A-03-03-13017	*Congressional Response Report: Review of the Social Security Number Feedback Pilot Project*	April 2003
A-03-03-23038	*Congressional Response Report: Status of the Social Security Administration's Earnings Suspense File*	November 2002
A-03-02-22008	*The Social Security Administration's Employee Verification Service for Registered Employers*	September 2002
A-03-01-11035	*Effectiveness of the Social Security Administration's Earnings After Death Process*	August 2002
A-03-01-11034	*Effectiveness of the Social Security Administration's Decentralized Correspondence Process*	July 2002
A-03-01-30035	*Management Advisory Report: Recent Efforts to Reduce the Size and Growth of the Social Security Administration's Earnings Suspense File*	May 2002
A-03-00-10022	*Management Advisory Report: Review of Service Industry Employer with Wage Reporting Problems*	September 2001
A-03-99-31001	*Force Processing of Magnetic Media Wage Reports with Validation Problems*	May 2001
A-08-99-41004	*Obstacles to Reducing Social Security Number Misuse in the Agricultural Industry*	January 2001
A-03-97-31003	*The Social Security Administration's Earning Suspense Tactical Plan and Efforts to Reduce the File's Growth and Size*	February 2000
A-03-98-31009	*Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items*	September 1999

Agency Comments

SOCIAL SECURITY

MEMORANDUM 33240-24-1137

Date: October 14, 2004 Refer To: S1J-3

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

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

Subject: Office of the Inspector General (OIG) Draft Report, "Employers with the Most Suspended Wage Items in the 5-Year Period 1997 through 2001" (A-03-03-13048)--INFORMATION

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

Please let us know if we can be of further assistance. Staff questions may be referred to Candace Skurnik at extension 54636.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "EMPLOYERS WITH THE MOST SUSPENDED WAGE ITEMS IN THE 5-YEAR PERIOD 1997 THROUGH 2001" A-03-03-13048

We appreciate the opportunity to comment on the draft report. For some time now, we have been engaged in a variety of activities geared to reducing the growth and size of the Earnings Suspense File (ESF). As the ESF continues to grow in both real and relative terms, we maintain a focus on educating employers about proper wage reporting techniques through our Employer Service Liaison Officers (ESLO) in each region. In the past, we have been commended for our efforts in reducing the size and growth of the ESF (*OIG Congressional Response Report, "Status of Social Security Administration's Earnings Suspense File" A-03-03-23038*).

Our comments to the recommendations and technical comments to the report are below.

Recommendation 1

Create centralized Earnings Data Warehouse (EDW) reports, after considering ESLO input, that assist ESLOs with identifying problematic employer reporting trends, such as increases in the volume of wage items in suspense as well as the percent of an employer's payroll in the ESF.

Comment

We partially agree. We will work with each ESLO in determining their individual reporting needs and requirements, including the method of delivery.

EDW currently has the report capabilities to identify employers with large numbers of items on the ESF or larger percentages of W-2 data on the ESF. As for identifying specific employer payroll percentage calculations of incorrect wage items as compared to correct wage items, the Annual Wage Reporting (AWR) system, which is the source of the Earnings Management Information Operational Data Store (EMODS) and EDW data, would have to pass on the total number of accurate W2's posted to the Master Earnings File. AWR currently does not provide this information and would require systems modifications to allow EMODS to calculate this measure, and would require approval for resources from the Agency's Information Technology Advisory Board.

Recommendation 2

Ensure ESLOs consider employer reporting trends created by EDW as part of their criteria in identifying employers for assistance through periodic monitoring from Headquarters.

Comment

We partially agree. We will utilize the EDW to identify those employers who are determined to need our assistance in the wage reporting arena. The ESLOs in each region will continue to provide the employer community with wage reporting educational seminars and any needed individual attention. In addition, we will continue to partner with the regional ESLOs in

monitoring and implementing changes to address the Agency's ESF goals, but not directly monitor the ESLOs from Headquarters.

[In addition to the items listed above, SSA also provided technical comments which have been addressed, where appropriate, in this report.]

OIG Contacts and Staff Acknowledgments

OIG Contacts

Walter Bayer, Director, Mid-Atlantic Audit Division, (215) 597-4080

Cylinda McCloud-Keal, Audit Manager, (215) 597-0572

Acknowledgments

In addition to those named above:

Michael Thomson, Auditor-in-Charge

Richard Devers, Computer Specialist

For additional copies of this report, please visit our web site at www.socialsecurity.gov/oig or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-03-03-13048.

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Office of Audit

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

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OEO supports OIG by providing information resource management and systems security. OEO also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OEO is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.