

BY THE U.S. GENERAL ACCOUNTING OFFICE
Report To The Chairman
Subcommittee On Social Security
Committee On Ways And Means
House Of Representatives

RELEASED

A Central Wage File For
Use By Federal Agencies:
Benefits And Concerns

In over 100 federal welfare, insurance, and disability programs, eligibility for billions of dollars of benefits depends primarily on the accuracy of an individual's reported wages. However, because of the lack of current and conveniently accessible data, federal programs seldom do income verification on a national basis.

Wage data reported quarterly by employers to state employment agencies in 41 states would be useful for verifying beneficiary income levels if such data were centralized for easy access by federal programs.

A central file of quarterly wage information supervised by a single federal agency would be technically feasible and relatively inexpensive to establish and operate. However, improved eligibility verification must be delicately balanced with privacy concerns. Though data centralization may help reduce erroneous payments, any move to centralization should occur only when there are adequate assurances that the data are accurate and individuals' privacy rights are protected. Thus, while a central file is feasible, it may not be desirable.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

B-204470

The Honorable James R. Jones
Chairman, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

In response to a request of the Subcommittee's former Chairman, we have identified the benefits that federal agencies operating means-tested entitlement programs could derive from using individuals' quarterly wage information maintained by states for administering their unemployment insurance programs and the practical considerations, such as cost, in developing a central wage file for such data. The report describes a system that would make this information available to federal agencies for routine verification of applicant and beneficiary wage reports. It discusses the benefits of such a system and certain privacy and other concerns that would have to be addressed in its development.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in black ink that reads "Richard L. Fogel".

Richard L. Fogel
Director

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EXECUTIVE SUMMARY

Recipients of federal welfare, insurance, and disability benefit payments continue to be eligible for such payments if their incomes are below designated amounts. Yet billions of federal benefit dollars are distributed each year without adequate income verification. Because of the lack of current and conveniently accessible data, federal programs seldom do income verification on a national basis.

Internal Revenue Service (IRS) tax data--a source for verifying income--are legally inaccessible to most federal agencies. But what about wage data currently reported by employers on their employees each quarter in 41 states?

Would this source provide usable verification information? If so, what would be the costs of gathering and maintaining these data in a federal central wage file? Also, what about the confidentiality of the information? These were the questions the House Ways and Means Subcommittee on Social Security asked GAO to address.

BACKGROUND

Studies by GAO and others have indicated that federal benefit programs overpay significant amounts due to inadequate verification of income eligibility.

IRS data are available to a few federal agencies, but most of these data are at least a year old and, therefore, not practical to use in verifying current income levels. Employer-reported wage data--collected by the states for use in their administration of federal unemployment insurance payments--are, by contrast, rarely more than 6 months old. Furthermore, by October 1, 1988, federal law will require all states to collect employer-reported wage data quarterly.

GAO contacted six federal agencies that administer the government's largest insurance, welfare, and disability programs to determine how they verify beneficiary wage reports and whether quarterly wage information could help them.

GAO also obtained states' views on whether they could make information available and, with the assistance of the Federal Computer Performance

EXECUTIVE SUMMARY

Evaluation and Simulation Center, determined what it might cost if states provided their quarterly data to a federal source which could maintain it as a central wage file.

RESULTS IN BRIEF

If centralized for easy access by federal programs, state-collected wage data would be useful for verifying beneficiary income levels. But civil liberties and privacy implications must be thoroughly considered and addressed before taking any action.

Federal program officials with whom GAO discussed state wage data said they would like to have access to these data to verify income. The cost of centralization appears to be relatively inexpensive--less than \$3 million to establish and less than \$1 million a year to operate (based on fiscal 1983 dollars). Additional unknown costs would be incurred by 21 of the 41 states that do not now verify the accuracy of the data they enter into their files.

However, any centralization effort should proceed only when there are adequate assurances that the data in question are accurate and that:

- Persons whose records are being verified are protected from undue invasions of privacy and accorded all rights of due process.
- The data accessed are used only for specifically authorized purposes allowed by law.

A central wage file is feasible, but it may not be desirable.

ANALYSES

The principal barrier to use of state wage data is the effort involved in doing a nationwide match--the matching agency would have to make individual arrangements with each state. The logistical problems of interruptions of state work and priorities could be overcome--and, perhaps, the security of the data improved--by states sending tapes of their data to a central federal source (perhaps under the aegis of the Department of Labor), to which the matching federal agency could send its own data for comparison. (See p. 11.)

EXECUTIVE SUMMARY

Central wage file is feasible and relatively inexpensive

Agency officials in all 41 states that currently collect quarterly wage information said they could send copies of their wage information on computer tape to a central file in the federal government. GAO and the Federal Computer Performance Evaluation and Simulation Center obtained information from state agencies, considered the verification needs of eight of the largest federal benefit programs, and developed a conceptual system. GAO concluded that such a system was technically feasible and relatively inexpensive. (See p. 22.)

Savings indicated on limited matches

Agency studies supplemented by GAO's analysis of the accuracy of wage reporting by Veterans Administration (VA) pension program beneficiaries in the Philadelphia metropolitan area indicate that a central wage file should improve the ability to identify ineligible or overpaid beneficiaries. For example, a match of VA pension beneficiaries living in the Philadelphia metropolitan area with the state of Pennsylvania wage records for a 9-month period in 1981 identified 270 cases with potential overpayments. Follow-up on these cases found overpayments of \$947,000--more than the estimated annual operating costs of the entire central wage file. (See p. 26.)

Privacy concerns

Eligibility verification must be delicately balanced with privacy concerns. Though data centralization may help reduce erroneous payments, any move to centralization should occur only when there are assurances that individuals' rights to privacy are protected. GAO believes that individual privacy might be better protected for those included in a central wage file if (a) access were restricted to federal agencies having specific legislative authority and only for specified purposes, (b) the requesting agency used the data for matching purposes only and any further use of the data by that agency was prohibited, and (c) the agencies were restricted from releasing these data to any other agency or group. (See p. 13.)

EXECUTIVE SUMMARY

Accuracy, cost,
and follow-up
concerns

To be useful, information in the central file must be accurate. As of March 1985, only 20 of the 41 states verified their data. Appropriate controls to ensure the wage data received from employers are accurately recorded in the states' files would be essential. The additional costs to establish and implement such controls in those states that do not now have them has not been determined. To insure that beneficiaries' benefits are not unjustly terminated, agencies must adhere to follow-up procedures on cases where the wage record in the central file indicates possible ineligibility. Such follow-up could include confirmation with the affected individual before initiating any actions. (See p. 16.)

RECOMMENDATIONS

GAO is making no recommendations.

**AGENCY
COMMENTS**

The Office of Management and Budget (OMB) and the Department of Labor said there was a need for further review of the issues and options involved before deciding whether to establish a central wage file. OMB and Labor stated that appropriate verification procedures would need to be implemented at the state level before such information is shared with federal agencies from a central file and additional costs would be involved in such verification. While Labor said that privacy implications should be considered before large-scale matching is implemented, OMB's comments on GAO's draft report did not address privacy issues. (See apps. III and IV.)

GAO believes that a decision to establish a central wage file should not be made without careful consideration of the accuracy, privacy, and cost issues discussed in this report. GAO believes that if a central wage file were to be established, provisions for ensuring accuracy, limiting access, safeguarding against unauthorized disclosure and use, and involving affected individuals in the verification process to ensure that benefits are not denied or terminated improperly should be enacted before implementation. Further, GAO believes that any legislation to extend federal agencies' direct access to state wage data, as proposed by OMB, should also include such provisions.

C o n t e n t s

	<u>Page</u>
EXECUTIVE SUMMARY	i
CHAPTER	
1 INTRODUCTION	1
Available sources of wage information	2
Objectives, scope, and methodology	5
2 A CENTRAL WAGE FILE IS FEASIBLE BUT RAISES PRIVACY CONCERNS THAT MUST BE ADDRESSED	11
Matching federal benefit rolls with quarterly wage information would be more efficient at a central wage file	11
Will individuals' privacy be jeopardized under a central wage file?	13
How the central wage file would operate	17
A central wage file would be relatively inexpensive	22
3 A CENTRAL WAGE FILE COULD HELP IDENTIFY OVERPAYMENTS	26
A GAO study of the Veterans Pension program demonstrates matching potential	26
Agency studies show potential matching results	27
State agencies' experiences show matching savings	30
4 CONCLUSIONS AND AGENCY COMMENTS	33
Agency comments and our evaluation	35
APPENDIX	
I Eight federal benefit programs selected for this review	40
II List of federal needs-based and insurance- based benefit programs by type of benefit	41
III Letter dated March 20, 1985, from the Office of Management and Budget	45
IV Letter dated April 5, 1985, from the Department of Labor	47

ILLUSTRATION

TABLE

I	Costs of a central file	23
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ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
ED	Department of Education
FEDSIM	Federal Computer Performance Evaluation and Simulation Center
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
SESA	State Employment Security Agency
SSA	Social Security Administration
SSI	Supplemental Security Income
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

Federal welfare, insurance, and disability programs pay billions of dollars each year to people who are needy, aged, or disabled. Entitlement to such benefits is based in part on their wages and, in some programs, also unearned income.¹ Wages play an important role in determining whether people are eligible for benefits from these programs, and if eligible, how much they will receive. Usually, federal program administrators must rely on information furnished by the people applying for or receiving benefits to establish how much they earned. Overpayments can result when program administrators receive inaccurate or incomplete reports of wages from beneficiaries. Program administrators can better detect and reduce these overpayments by routinely verifying beneficiary wage reports.

Some program administrators verify beneficiary wage reports by requiring the beneficiary to furnish supporting documentation. For example, in the Pell Grant program, which provides grants to undergraduate students (attending postsecondary institutions) who demonstrate financial need, supporting documentation can include pay stubs or a copy of the latest income tax return. (See pp. 28 and 29.) Program administrators check this documentation against information the beneficiary previously reported on an application or questionnaire. If there is a discrepancy between the supporting documentation and the questionnaire or application, program administrators may adjust or stop benefits. However, there is a belief among program administrators that beneficiaries will not furnish documentation if it contradicts what they have previously reported, especially if benefit amounts are affected.

Another way program administrators can verify the accuracy of beneficiary wage reports is to compare them with wage information provided by the employer through a process known as computer matching. Computer matching is a procedure in which selected data within two or more computer files are compared to identify certain conditions that indicate possible program ineligibility or erroneous benefit payments. Because computers are able to match millions of records at great speed, computer matching is a systematic and efficient way of conducting a preliminary screening. However, its use has raised questions about protection of individuals' privacy rights.

¹Income derived from such sources as interest, dividends, and pensions.

AVAILABLE SOURCES OF WAGE INFORMATION

There are two sources² of employer wage information available to the federal government for verification: (1) annual wage information on individual employees reported by employers to the Social Security Administration (SSA) and used by both the Internal Revenue Service (IRS) and SSA and (2) quarterly wage information in the files of state agencies that administer state unemployment insurance programs. The quarterly wage information is generally considered the better source for verification because it is more current. Federal program administrators have not widely used either the quarterly or the annual wage information for verification because it is not readily accessible and the latter is generally not current when obtained, thereby limiting its usefulness for matching.

Annual wage information

Annual wage information² has not been widely used for verification because federal law restricts its use. Also, since it is annual information, it is not available for matching on a timely basis. A year or more of overpayments can occur before the program administrators become aware that beneficiaries have not reported all their wages.

Legislation³ requires IRS and SSA to cooperate in obtaining employer-reported wage information. Employers report annually on form W-2, the Wage and Tax Statement. The employers send a copy of the form W-2 directly to SSA and provide copies of the form to the employee. Under an IRS/SSA agreement, SSA processes all information from the W-2, which includes wage data, onto computer tapes or disks and sends it to IRS.

Both SSA and IRS use the wage information obtained from the W-2 in their program operations. IRS uses the employer-reported information to compare with the form W-2 taxpayers have submitted with their tax returns. SSA uses the information to maintain individual earnings records, which are the bases for determining an individual's eligibility for and the amount of social security benefits. SSA also uses annual wage information for matching with beneficiary wage reports of SSA-administered programs, such

²Excluding a wage information source on the salaries of federal civilian employees maintained by the Office of Personnel Management.

³The Combined Old-Age, Survivors, and Disability Insurance, Income Tax Reporting Amendments of 1975 (section 8 of Public Law 94-202).

as Supplemental Security Income (SSI), Disability Insurance, and Old-Age and Survivors Insurance for people under 70 years of age.

SSA wage data are legally permissible for matching with two state-administered, federally supported programs:⁴ Aid to Families with Dependent Children (AFDC) and Food Stamps. AFDC provides money to needy families with dependent children who have been deprived of the support or care of one parent. The Food Stamp program improves the diets of low-income households by supplementing their food purchasing ability through monthly allotments of stamps, based on their income and household size.

Before 1978, SSA received wage information quarterly from employers, but the law that required IRS and SSA to cooperate in collecting annual wage information also removed the quarterly wage reporting requirement to reduce the paperwork reporting requirements on employers. Because of this and a 1-year or longer processing time, the SSA wage information is now over a year old before it can be matched with beneficiary wage reports.

In 1976, the Deputy Commissioner of Social Security testified before the Congress on the proposed change from quarterly to annual wage reporting, citing the need for the quarterly information to independently check the accuracy of beneficiary wage reports. He said that an annual wage reporting system would not make wage information available soon enough to serve the matching needs of benefit programs.

The change from quarterly to annual wage reporting affected not only SSA, but also the state agencies administering the AFDC and Food Stamp programs. For example, responding to the change, New York State implemented its own quarterly wage reporting system for matching with the state-administered benefit programs. (See pp. 31 and 32.) The administrator of the public assistance unit, Nebraska Department of Public Welfare, wrote GAO about using SSA's annual wage information for matching and said "because of the timeliness of the data and the form in which it is received, we have found it to be practically useless."

Another problem with the annual wage information is that its uses are restricted. Information on individual taxpayers in IRS files was under tight legal disclosure provisions,⁵ which limited the use of this information, with few statutory exceptions, to tax administration. A major reason for restricting the

⁴Public Laws 95-216 and 97-98.

⁵Section 6103 of the Internal Revenue Code.

use of tax return information is to maintain the confidential nature of the tax system, which is important in the voluntary filing of tax returns. Disclosure provisions prohibit, for example, a program administrator for student education grants, which serve needy students who must show limited income, from matching his benefit rolls with the IRS files because those files contained not only wage information from the form W-2, but also information on all types of income, such as dividends and interest. The wage information in SSA files, which is obtained from the form W-2, is also subject to the same disclosure provisions as wage information in IRS files.

However, the Deficit Reduction Act of 1984, enacted in July 1984, amended the law to permit the wage and other information in SSA and IRS files to be used for matching with the following state-administered programs: AFDC, Medicaid, Unemployment Compensation, Food Stamp, and any state program under a plan approved under title I, X, XIV, or XVI of the Social Security Act. The only federally administered program covered by the act is SSI. The information that can be provided under the Deficit Reduction Act of 1984 includes (1) SSA information on individuals' net earnings from self-employment and wages and on employers' payments of retirement income and (2) IRS return information relating to unearned income.

While the 1984 act affects programs representing many entitlement dollars, it does not apply to most federal entitlement programs.

Quarterly wage information at the states

The 53 State Employment Security Agencies (SESAs)⁶--such as the California Employment Development Department, the Maine Department of Labor, and the Texas Employment Commission--are responsible for administering unemployment insurance under the supervision of the U.S. Department of Labor. Under title III of the Social Security Act, the federal government reimburses the states for the cost of administering the unemployment insurance program. According to IRS' Office of Chief Counsel, state wage data are not "return information"; therefore, section 6103 of the Internal Revenue Code does not regulate states' disclosure of these data. A written IRS opinion, dated February 2, 1984, discusses the use of SESA wage information as it relates to the Tax Reform Act of 1976.

⁶The 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands. In this report, whenever applicable, the term state or state agency will include all 53 jurisdictions.

As part of the administration of the unemployment insurance program, the SESAs gather wage information. As of July 1984, most SESAs (41) collected quarterly wage information from employers. The states that collect such information are called wage record or wage reporting states. As the name implies, these 41 SESAs maintain a wage record for all workers covered by unemployment insurance.⁷ When a worker claims unemployment insurance benefits, the SESA checks the wage record to determine eligibility; that is, to see if the claimant worked long enough to be entitled to benefits. The SESAs also use wage records to ensure that individuals are not working while claiming benefits. The SESAs make their wage information available to the state social welfare agencies for matching with the welfare agencies' benefit rolls.

SESAs in 12 states do not collect quarterly wage reports from employers. Eleven of these SESAs request wage information from employers only when a former employee claims unemployment insurance benefits. States with such SESAs are called wage request states. Three of the wage request states⁸ have passed legislation to change to a wage record system. Three wage request states collect quarterly wage information from employers through state agencies other than the SESAs. The federal government does not reimburse these three states for their quarterly wage reporting systems as it does with the wage record SESAs. (See p. 31.) One SESA, Hawaii, has devised an accession and separation system for obtaining wage information from employers. Employers report each time an employee starts or ends employment.

With the passage of the Deficit Reduction Act of 1984, employers will be required, after September 30, 1988, to make quarterly wage reports to the SESA or to an alternative state system which is as effective and timely as the SESA for providing employment-related income and eligibility data.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Chairman of the Subcommittee on Social Security of the House Ways and Means Committee requested us to undertake a broad study of the government's quarterly and annual wage reporting systems. After discussions with the Subcommittee, we agreed to focus our efforts on the following issues:

⁷Federal workers are a major exception. The federal government reports wage information only when a worker files for unemployment insurance benefits.

⁸Minnesota, New Jersey, and Utah.

--The benefits SSA and other federal agencies could derive from access to the quarterly wage information maintained by the SESAs.

--The practical considerations, such as cost, in making the quarterly wage information available to the federal agencies that can use that information.

Our objectives were to determine whether federal agencies could benefit from access to quarterly wage information maintained by the states, and if so, what the costs, benefits, and practical considerations of making this information available would be. We also wanted to evaluate the potential impact of such a change on the personal privacy of individuals.⁹

In one report¹⁰ we identified 58 welfare programs and in another report¹¹ 45 disability programs that the federal government funds. Some of the welfare programs are federally supported but state administered. All of the disability programs are federally administered. We looked at the eligibility requirements of 40 of the federally administered welfare programs and found that beneficiaries' wages affected eligibility or benefit amounts in 39 of them. We judgmentally selected eight federally administered disability and welfare programs for an in-depth look at the wage limitations and how they were and could be monitored. The eight programs are Social Security Disability Insurance, SSI, Veterans Pension, Section 8 Housing, Pell Grant, the National Direct Student Loan and Federally Insured Student Loan portions of the Guaranteed Student Loan program, Civil Service Disability Retirement, and the Federal Employees Compensation Act. These eight programs, which cost about \$37 billion in fiscal 1982, are described in appendix II.

We selected these eight programs for several reasons. First, the programs were all relatively large, both in dollar expenditures and number of beneficiaries. Second, each program limited wages as a condition of receiving benefits. Finally, program officials have used or indicated a need for independent verification of beneficiary wage reports.

⁹How verification affects privacy is discussed in a GAO report entitled Eligibility Verification and Privacy in Federal Benefit Programs: A Delicate Balance (GAO/HRD-85-22, Mar. 1, 1985).

¹⁰Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (GAO/HRD-82-9, Jan. 14, 1982).

¹¹Limits on Receipt of Multiple Disability Benefits Could Save Millions (GAO/HRD-81-127, July 28, 1981).

The eight benefit programs are administered by six federal agencies: SSA, the Veterans Administration (VA), the Department of Housing and Urban Development (HUD), the Department of Education (ED), the Office of Personnel Management (OPM), and the Department of Labor. Agency officials informed us of their current methods of insuring program integrity and their need for employer-reported wage information to match with the beneficiary wage reports. Agency officials also provided information on the size of their programs and their needs for computer matching.

We performed our fieldwork at various federal and state offices. We visited the Baltimore headquarters of SSA and the Washington, D.C., headquarters of the Departments of Agriculture and Labor, ED, HUD, the Office of Management and Budget (OMB), OPM, VA, and IRS. We also did work at two SSA regional offices--Boston and Dallas--that had successfully tried computer matching and at two SSA Data Operations Centers in Albuquerque, New Mexico, and Salinas, California.

We also visited SESAs, state welfare agencies, and, where applicable, state income tax agencies¹² in 15 states: California, Florida, Georgia, Illinois, Indiana, Massachusetts, Michigan, Missouri, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas, and Virginia. According to Bureau of Labor Statistics data, these were the 15 largest states in number of people employed at the end of the third quarter of 1981. Fiscal year 1981 data were the latest available when our review began. Together these 15 states contained about two-thirds of the nation's total employed persons covered by unemployment insurance.

Of the 15 states visited, the SESAs collected quarterly wage information from employers in 10: California, Florida, Georgia, Illinois, Indiana, Missouri, North Carolina, Pennsylvania, Texas, and Virginia. SESA officials provided data on the number of employees for which wage information was collected; how the information was collected and processed; the type of computer system used; the state laws involved; the use of the information; and the practical considerations, including costs, of providing the wage information to the federal government. Although we visited only 10 wage record states, we obtained these data from all 41 such states through a questionnaire.

In these 10 states, state welfare officials told us of the advantages of using the quarterly wage information to maintain benefit program integrity in state-administered programs, such as the AFDC and Food Stamp programs.

¹²Florida and Texas do not have a state income tax.

Of the 15 states visited, SESA officials did not collect quarterly wage information from employers in 5: Massachusetts, Michigan, New Jersey, New York, and Ohio. In these five states, state welfare officials discussed how the AFDC and Food Stamp program benefit rolls were monitored. Three states--Massachusetts, New Jersey, and New York--collected quarterly wage information from employers through state agencies other than the SESA. Officials at these agencies provided information on the operation and results of their quarterly wage reporting systems.

We considered three possible methods for matching federal benefit rolls to the SESA wage files:

1. The federal agencies could send copies of their benefit rolls to each of the SESAs for matching.
2. The SESAs could send copies of their wage files to each federal agency that needs the information.
3. Each SESA could send a copy of its wage file to a single federal source, which would maintain a central file of the information. Federal agencies would then do their matching at the central file.

We concluded that the third method was the most practical. The basis of our conclusion is described in chapter 2.

We needed to know the cost of bringing the quarterly wage information collected by the SESAs together in a central file and using it for matching. A conceptual system was jointly defined by our staff and the Federal Computer Performance Evaluation and Simulation Center (FEDSIM)¹³ to perform this task.

We collected the information that was used in defining the computer system from the 41 wage record states and the six federal agencies. This information included matching needs and capabilities, beneficiary population, and frequency of desired matches. We did not verify the accuracy of the information provided by these agencies.

¹³FEDSIM is the primary government source of computer performance and simulation services. FEDSIM was established by the General Services Administration in 1972 under authority of Public Law 89-306, dated October 30, 1965. General Services requested that the Air Force, with its experience in simulating computer systems, operate FEDSIM. FEDSIM policies are established by a committee composed of representatives of the General Services Administration, the Air Force, the Office of the Secretary of Defense, and the National Bureau of Standards.

We and FEDSIM sized the computer system to meet the matching requirements of the eight federal benefit programs in our sample. In sizing the center we, along with FEDSIM, made certain assumptions based on unknowns. For example, there were uncertainties in assumptions regarding the anticipated volume of work and future workload growth. When we made assumptions that affected a particular agency, we asked agency officials to comment. Examples of the types of assumptions made are included on pages 23 and 24.

Department of Labor, IRS, and OMB officials; congressional staff members concerned with privacy or benefit programs; and the director of the privacy project for the New York Civil Liberties Union provided their concerns and opinions regarding a central file of the SESA wage information at the federal level, including its use for matching and its impact on personal privacy.

To identify possible benefits from using quarterly wage information for matching, we obtained the results of prior GAO and agency studies. We did not verify the adequacy of the methodologies used in the agency studies. Therefore, results of the agency studies we describe should be taken in that context.

We reviewed SSA's design for its annual wage reporting system and disapproved it in a July 13, 1982, letter to the Secretary of Health and Human Services. We found internal control weaknesses in the system's design that could affect the reliability of individuals' earnings records. Our review, however, was not designed to identify the existence or determine the extent of any inaccuracies. We found also that the system as operated does not maintain the earnings records in a timely manner. We have not reevaluated SSA's Earnings Record System since our initial review.

We have not reviewed the wage reporting systems of the SESAs; therefore, we cannot attest to the accuracy of the information in those systems. Although we did not review the accuracy of the wage information at the 41 SESAs, a questionnaire we sent to them included questions about quality assurance procedures. The responses showed that not all of the SESAs follow basic quality assurance procedures for computer media, such as key verification and edits, which check for errors when data are entered into their systems.

With the exceptions noted,¹⁴ our review was made in accordance with generally accepted government audit standards.

We provided a draft of this report to OMB and the Department of Labor for review and comment. Comments received from OMB and Labor are included in appendixes III and IV.

¹⁴Our review of the wage reporting system described on this page and the verification of material furnished by agencies described on the previous page did not include tests to determine the accuracy of the data. The quarterly wage data we discuss in this report, however, are the data the state agencies use as a basis for paying benefits.

CHAPTER 2

A CENTRAL WAGE FILE IS FEASIBLE

BUT RAISES PRIVACY CONCERNS

THAT MUST BE ADDRESSED

Program administrators need to routinely verify wages reported by beneficiaries to reduce costly overpayments in federal assistance programs. The states' quarterly wage information is the best available source for such verification because it is current and is not tax return information. Matching federal benefit rolls with quarterly wage information at a central file is more efficient than trying to match at each state. However, establishing a central wage file raises certain concerns, such as whether individuals' privacy will be jeopardized and whether such a file is technically feasible and at what cost.

This chapter discusses the efficiency of a central wage file, concerns about individual privacy and steps that could be taken to address some of the concerns, how a central system would operate, and what it might cost to establish such a reporting system.

MATCHING FEDERAL BENEFIT ROLLS WITH QUARTERLY WAGE INFORMATION WOULD BE MORE EFFICIENT AT A CENTRAL WAGE FILE

For routine matching to succeed, the operation should be kept as simple as possible, not only for the users of the wage information, but also for those who furnish the wage information to the system. Officials from the six departments and agencies that administer the eight federal benefit programs said that the quarterly wage information at the SESAs would be useful to them. However, a federal agency that would like to perform a nationwide match must now contact all 41 wage record SESAs and make a separate arrangement with each. This is an inefficient procedure, and we did not find any federal agency that had tried.

Even if such a match were feasible, state agency officials were concerned that if all potential federal users separately requested quarterly wage information, the requests could interfere with the operation of the states' unemployment insurance programs. These types of problems can be eliminated by having each SESA routinely send a copy of the quarterly wage file or computer tape to the federal government and having the federal matching performed at a central file.

Nationwide matching of
federal benefit rolls at the
state level would be difficult

SESA officials generally would rather send copies of their files to a central file than do matches at the state level for federal agencies. SESA officials in the 10 sample wage record states we visited said they could copy their computerized wage files and send the copies to a central file in the federal government. Only officials in two SESAs said they could match federal benefit rolls. Four officials preferred not to do matches for the federal programs. Officials in the other four SESAs had serious reservations about doing the matches for federal agencies at the state level.

According to SESA officials in Florida, Georgia, North Carolina, and Virginia, SESAs do not have time and resources available to perform matching for federal agencies. These officials further stated that their states' responsibilities take top priority and, should numerous requests for matching come in, the states would respond as time and resources permit.

Florida SESA officials said they would not be able to match federal benefit rolls because of the existing demands on their system. One Florida SESA official said most states would resist any attempt to require, by law, that SESAs do matching for federal agencies. The administrator of the contributions section of the Florida SESA wrote that sending a copy of their wage file to a central source in the federal government:

". . . allows states to establish a regular schedule for furnishing the information to a federal computer system. It will be easier than trying to handle various requests at different times when most computer systems are already overworked."

Officials in 2 of the 10 SESAs we visited said they would be willing to match benefit rolls of federal agencies at the state level. Indiana SESA officials said that they could perform the matching, but it would be more practical and economical to send copies of their wage files to a central point in the federal government. Missouri SESA officials said that they could perform matches for the federal government at the state level and would prefer to do so for confidentiality reasons.

Federal officials express concern
about the states' ability to perform
nationwide matching for federal agencies

Officials in the Department of Labor--the federal agency liaison to SESAs--expressed concerns about the SESAs' ability to perform nationwide matching for federal agencies. Labor officials said that one federal agency, the Department of Defense, had suggested matching its military disability benefit rolls with all SESA wage files. However, Labor officials said that they talked the Department of Defense officials out of it because of concerns about the impact on SESA operations in time, cost, and ability to do the requested matching.

The advantages of a central file are that it (1) eliminates the need for the federal agencies to contact each SESA separately and (2) allows the agencies greater control over the timing and circumstances of the matches. As SESA officials' comments indicated, it is unlikely that federal agencies could ever establish routine matching of their benefit rolls with all the states. Also, it would be difficult, if not impossible, for the federal government to control when and how a match takes place.

WILL INDIVIDUALS' PRIVACY BE
JEOPARDIZED UNDER A CENTRAL WAGE FILE?

When information is exchanged between different government agencies, individual privacy can be jeopardized if appropriate safeguards are not in place and if proper procedures are not followed. What concerns do people have? Primarily, that the government and others will know more about them than they should (in this case about their wages), and secondly, that the information the government has may be incorrect and adversely affect them (in this case, affecting their entitlement to benefits). Both concerns are real, and the potential for their occurrence must be addressed in establishing a central wage file. However, with appropriate safeguards in the establishment, maintenance, and use of the file, individuals could be assured more privacy protection than is currently afforded when federal agencies use the states' quarterly wage data. (See p. 15.)

Concerns about access

To ensure individual privacy protection for those on whom the federal government has information, the Congress enacted the Privacy Act of 1974 (5 U.S.C. 552a). The act prescribes the circumstances under which the federal government may collect, maintain, and use information on individuals and requires, with certain exceptions, that records be maintained on who uses the file information, including the date, nature, and purpose of

disclosure. The act applies to systems of records retrieved by an individual identifier maintained by the executive branch of the federal government but generally does not apply to state and local records.

If a file is part of a system of records held by a federal agency covered by the Privacy Act, the file must be maintained and secured according to the act's requirements. The act limits the circumstances under which a file can be used and prescribes civil and criminal penalties for misuse. Maintaining accurate records on disseminated information is an important provision of the act. Without accurate records on use, it is difficult to identify misuse of the information or notify prior users of any corrections.

In our opinion, the central wage file would come under the protection of the Privacy Act. However, some experts in the privacy field are concerned that the act has weaknesses. A main concern has been the "routine use" provision, which allows an agency to obtain data from or provide data to another agency if the data will be used for routine purposes compatible with the purpose for which they were collected. Many see the provision as a means by which agencies could avoid some of the limitations on disclosure and that agencies can determine almost any purpose as being compatible with the purpose information was collected for when considering requests for information from another federal agency. In addition, although a new routine use must be published in the Federal Register to inform the individuals on whom the data are maintained as well as the public, many question whether such publication is adequate public notice.

Concerns with the Privacy Act's "routine use" provision were discussed by the Privacy Protection Study Commission in its 1977 report to the President.¹ The report recognized that the routine use provision can be interpreted broadly and consequently could reduce limitations on disclosure. The Commission concluded, however, that there may be situations where disclosures are necessary but the use of the information may not be considered compatible with the collection purpose. To tighten up disclosure requirements and remove some of the subjective interpretation allowed and to identify appropriate disclosures not covered by the routine use provisions, the Commission suggested that the Congress delete the provision and instead specifically authorize such uses or disclosures that may not be compatible with collection purposes or consistent with an individual's expectations of use or disclosure but nevertheless warrant such use or disclosure.

¹Personal Privacy in an Information Society. The Report of the Privacy Protection Study Commission, July 1977.

To address some of the concerns raised by others, it would be desirable to legislate safeguards for the central wage file. Some of these safeguards may be similar or supplementary to those provided by the Privacy Act. These safeguards could include such measures as

- specifying the agencies and programs that could use the wage information and for what purposes;
- restricting any further use of the wage data by the requesting agency except as specified by law;
- restricting agencies from redisclosing the data to any other agency, group, or person; and
- requiring federal agencies to obtain state wage information through the central file and requiring them to obtain separate approval from the agency responsible for the central files before obtaining information directly from state agencies.

No federal agency now matches with the state wage information on a nationwide basis, but federal agencies have requested matches with wage information from some of the states. For example, officials at 21 SESAs said they had provided wage information to IRS. Officials at seven SESAs said they had provided wage information to the Department of Agriculture. Officials in some SESAs said they had provided wage information to the Department of Labor, SSA, the Federal Bureau of Investigation, the Railroad Retirement Board, the Equal Employment Opportunity Commission, the Postal Service, the Customs Service, the Tennessee Valley Authority, and VA. On occasion, our Office has used wage data provided by SESAs.

However, officials in seven of the SESAs did not keep accurate records on which federal agencies had accessed their files or for what purpose. Officials could not always provide information on the date of information requests, the amount of information provided, or the purpose of the request. For example, officials at two SESAs said they had provided wage information to some federal agencies, but they did not know which agencies had been sent the information or how it was to be used.

If a central file is established, all requests for SESA wage information could go to the one federal agency responsible for the central file. The responsible agency could keep records on the federal agencies that use the information. Establishing this level of control over federal use of the quarterly wage information would be difficult if matching continues at the state level.

Concerns about accuracy and follow-up

Equally important is the accuracy of the wage data in the central file and how they are used to affect benefit entitlement. While such wage data should be confirmed with the affected individual and corroborated when necessary, federal agency inquiries of beneficiaries based on inaccurate wage information could cause beneficiaries needless worry about possible benefit cutoffs, reductions, or repayments. Similarly, agency efforts to verify wage data by contacting employers could result in much wasted effort by the agencies and employers if data frequently were inaccurate. Consequently, adequate data verification controls are essential to ensure wage data received from employers by the states are accurately recorded and copied by the states and maintained by the central file. Although we did not determine the accuracy of the wage records currently maintained by the states and used for their benefit payment programs, we noted that 21 states do not check for errors they might make when they enter wage data into their systems.

To ensure that benefits are not terminated improperly, agencies must take proper follow-up action on cases that indicate potential ineligibility. The director of the privacy project for the New York Civil Liberties Union said that if such a central file is implemented, there must be appropriate safeguards. She said that the American Civil Liberties Union has opposed agencies contacting the person's employer for supplementary information or withholding money, such as tax refunds, before giving the person affected the opportunity to present evidence that the match was in error.

OMB has published several documents providing guidelines to federal agencies using computer matching eligibility verification techniques. The guidelines, intended to help agencies relate the procedural requirements of the Privacy Act of 1974 to the operational requirements of computer matching, help assure uniform federal agency compliance with key provisions of the act.

The OMB computer matching guidelines, dated May 11, 1982, for example, state that an agency should consider a number of factors before disclosing personal records for matching programs. These include the legal authority for the match, the purpose and description of the match, the provisions of the Privacy Act under which disclosure may be made, and the safeguards to be afforded the records involved. The guidelines state that written agreements should be established governing the use of the matching file, that it will be returned to the source agency (or destroyed as appropriate), that it will not be used for purposes other than that which was initially agreed to, and that it will not be duplicated or disseminated within or outside the matching agency.

The OMB guidelines state that agencies should establish and publicize procedures for following up with individuals who are matched. As we indicated in a June 1984 report,² OMB could place more emphasis on agency procedures for following up on computer matching results. Although agencies have procedures covering follow-up action to be taken when there is an indication of unreported wages, we have not reviewed whether the procedures are adequate or whether they were being followed.

We believe that federal agencies, in using match results, must take steps to involve the individuals in the verification process to ensure that benefits are not terminated improperly. For example, following are some provisions that we believe are important and are included in either the Privacy Act, OMB's guidelines, or agencies' procedures:

- Individuals applying for benefits should be informed that information will be obtained to verify their eligibility.
- Individuals should have access to any information about them that the agency obtains for verification.
- No benefits should be terminated solely on the results of a manual or computer match; rather, the results should be confirmed with the individual by the agency administering the program.
- Recipients should have the opportunity to refute any information before it is used to affect their benefits.

The remainder of this chapter addresses how a central wage file would operate and what it could cost.

HOW THE CENTRAL WAGE FILE WOULD OPERATE

The central file would be a separate computer system under federal supervision. Each quarter the SESAs would send copies of their quarterly computerized wage files, along with the associated employer identification files, to the federal central file. The center would process the information and make it available to other federal agencies for matching. In this regard, federal agencies would send computer tape copies of selected information from their benefit files to the central file. The match would take place at the central file, and the agency's copy would be returned with any additional information from the wage file from each match. The wage information in the central file would

²GAO Observations on the Use of Tax Return Information for Verification in Entitlement Programs (GAO/HRD-84-72, June 5, 1984).

contain the basic information needed for matching and would be available on a timely basis. The central file would not retain any data from the federal agencies' benefit files as a result of the match.

Responsibility for the file

One federal agency should be responsible for the file. This will give the SESAs one agency to deal with on a regular basis when providing copies of their wage and employer files.

A logical choice might be the Department of Labor since it is responsible for the SESA operations and serves as federal liaison between the SESAs and other federal agencies. These responsibilities would include authorizing payment for the SESA administrative costs and assuring that the SESAs run an efficient and effective operation.

Information in the file

Officials in the 41 wage record SESAs told us what information from their files could be sent to the central wage file, how it would be sent, and when. One of our computer specialists reviewed the formats in which the SESAs said they would supply the information to the federal government³ and found that all submissions would be compatible with the central wage file.⁴ The SESAs' responses were based on information in their files at the end of the second quarter of 1982.

Most of the nation's employed work force would be included in the central file. Now the 41 wage record SESAs could supply data on over 3 million employers and 63 million workers. With the passage of the Deficit Reduction Act of 1984, effective September 30, 1988, employers in the nonwage record states will be required to report employee wage data quarterly to the SESA or equivalent state system. At that time, with 53 wage record systems, the central file would have information on about 5 million employers and 90 million workers.

³An official at the Virgin Islands SESA said that, because of the small size of the territory's work force, all the wage information is stored on computer diskettes. He said another federal agency would have to transfer the wage information from the computer diskettes to computer tape.

⁴For example, each SESA confirmed that its files could have a specific recording density on half-inch wide magnetic tape, contain no packed numeric or binary fields of data, and have standard labels or no labels.

On average, about 81 percent of a state's work force is covered by unemployment insurance. Individuals not covered include, among others, the self-employed, some workers in nonprofit organizations, and some government workers.

All of the SESAs could supply employee social security numbers, wages, and state employer identification numbers on the wage file and the employer names, addresses, and state employer identification numbers on the employer file. The employer file enables users of the data to identify a worker's employer by name and address.

The social security number, the key identifier in the state wage files, would therefore become the link between the information in the central file and the benefit rolls of the federal agencies. Client fraud and agency mistakes can result in faulty social security numbers being associated with individuals for whom wages are reported. Faulty numbers can be costly to programs and clients. Prior GAO reports⁵ have shown how faulty numbers cause problems in various benefit programs. These problems occur sometimes because agencies lack internal controls and the capability to verify client social security numbers. Keeping this in mind, effective procedures are needed to verify that wages associated with social security numbers really are the wages of the person who has been assigned that number by SSA.

Although all SESAs would report social security numbers, only 28 SESAs could supply all or part of the employee's last name. Those who do not collect any part of the employee's name generally do not do so because of the additional costs and believe that this information is not needed to adequately administer the unemployment program.

While having as many identifying factors as possible is desirable when matching records and it would be preferable to have the social security number and names on the wage file, having only the number is sufficient to perform program matches provided the number is accurate. For example, state agencies currently use the quarterly SESA data to monitor their AFDC and Food Stamp programs. However, should a federal agency using the information desire additional verification that the social security matched records are accurate, it could verify the accuracy of the social

⁵Complete and Accurate Information Needed in Social Security's Automated Name and Number Files (GAO/HRD-82-18, Apr. 28, 1982). Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundred of Millions (GAO/HRD-82-9, Jan. 14, 1982).

security numbers by comparing them to SSA's numident file. (This is a magnetic tape file and system containing identifying information on individuals, such as their social security number, name, date of birth, and parents' names in social security number sequence.)

All of the SESAs record in their files wages of up to at least \$99,999 earned quarterly by each person. This amount would be sufficient for the matching needs of federal benefit programs.

Thirty-nine SESAs process the quarterly wage information within 99 days after the close of the quarter, and 38 could, in turn, supply the information to the central file within 120 days after the close of the quarter. Only three SESAs indicated that it would take longer than 120 days to send copies to the federal government--the longest being 150 days. Thus, most of the information would be available for matching within 4 months after the quarter. At the end of the year, the quarterly wage information could be combined at the central file into an annual figure for agencies that prefer to match against annual wage information.

File records

If the central file becomes operational, its operations would consist of three main functions:

- Receiving, filing, and/or updating the wage records for each worker covered by unemployment insurance each quarter.
- Updating any additions or changes to the file on employers each quarter.
- Responding to data base inquiries by generating responses to the federal programs that will access the data.

The data base would initially consist of 63 million records from the 41 states, sorted by social security number. Each record could consist of a given length and be retrieved by social security number. These records would be updated quarterly from the information supplied by the states. There would not have to be 53 separate files representing each SESA. Instead, the 53 files could be consolidated into one large file through a process that would update the file quarterly and take roughly 1 week of a single-shift operation involving six persons.

Matching formats

Each agency would specify when it wants a match to occur and the criteria for the match. First the social security number of the record from the benefit program would be matched against the

number on the record in the wage file. To confirm this initial match, a portion of the person's name could also be checked if it is from the record of an SESA that supplies this information. After the appropriate record has been found, each program's criteria for a match, based on the person's wages, would be used to identify potential program matches. The data from the central file would be annotated on the requesting agency's file. The annotated file would then be returned to the requesting agency. Consequently, federal agencies would receive data from the central file only for persons who have social security numbers matching those of their program beneficiaries or applicants with wages high enough to affect eligibility or benefit amounts.

Five of the six federal agencies reviewed could currently supply computer tape copies from their files in standard formats to the central file. The President's Council on Integrity and Efficiency and OMB developed the model format to help prepare for and conduct all computer matching programs involving personal data files from any agency or element of the federal executive branch. The chief of OPM's Quality Assurance Division said that only the Civil Service Disability Retirement program could not currently supply information in the standard format.

Record retrieval

Since records would be retrieved from the central wage file by social security numbers, the success of any matching would partly depend on such numbers being not only in the wage file but also known to the agency program paying benefits. The federal government requires that an applicant for AFDC, Food Stamp, or SSI benefits, for example, provide a social security number as an eligibility condition. However, some federal benefit programs only request, but do not require, the number from applicants.

For example, a HUD Office of Inspector General (OIG) official said that beneficiaries' social security numbers are frequently missing from the records of HUD's rental assistance programs. A HUD official said that, under its current legislative authority, HUD cannot require a social security number from a beneficiary as a condition of eligibility.

In 1982, we reported⁶ that program administrators should obtain valid social security numbers from all applicants and recipients of welfare programs, and we recommended that legislation be amended so that:

⁶Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Offsets Could Save Hundreds of Millions" (GAO/HRD-82-9, Jan. 14, 1982).

"Departments and agencies shall require each individual applying for or receiving benefits under any federally funded needs-based program to furnish his or her social security number as a condition of initial or continuing eligibility."

The social security number used to identify individuals allows pieces of information needed for verification to be easily collected from different sources, connected, and compared. It is thus the key ingredient for many computer matches. However, its use in this manner enables government agencies, and others who might have access to the data, to know more about the individual and consequently reduces their privacy. Also, the more places that contain an individual's name and social security number, the greater the potential that unauthorized persons could gain access to it and use it to obtain personal information on that person from other sources. These and other related issues regarding current policies and practices pertaining to social security numbers are discussed in a GAO report entitled Eligibility Verification and Privacy in Federal Benefit Programs: A Delicate Balance (GAO/HRD-85-22, Mar. 1, 1985). Although increased use of the social security number could potentially reduce privacy, appropriate controls on access and use can minimize the threat. Consequently, we believe our 1982 recommendation to require needs-based program applicants and recipients to furnish their social security numbers for use in income verification is still appropriate.

A CENTRAL WAGE FILE WOULD
BE RELATIVELY INEXPENSIVE

The costs of operating a central wage file would depend on the volume of work and future workload growth. In cooperation with FEDSIM, we estimated that the central file would cost about \$1.5 to \$2.9 million initially and about \$522,000 to \$710,000 annually to operate (based on 1983 dollars). These costs include the costs of operating and maintaining the files and the 41 SESAs' estimated costs to furnish one copy of their wage and employer files initially and quarterly updates thereafter. The costs do not include the expenses of federal agencies following up on the match results.

The following table shows the estimated costs of a central file.

Table I

Costs of a Central File

<u>Type of costs</u>	<u>Initial costs</u>	<u>Annual operating costs</u>
Computer hardware	\$1,200,000 to \$2,600,000	\$ 67,000 to \$214,000
Computer software	\$100,000	\$ 9,000
Support facilities	\$ 60,000 to \$ 106,000	\$ 95,000 to \$136,000
Personnel	None	\$212,000
Subtotal	\$1,360,000 to \$2,806,000	\$383,000 to \$571,000
SESA expenses	\$ 110,000	\$139,000
Total	\$1,470,000 to \$2,916,000	\$522,000 to \$710,000

Initial costs

The estimated initial costs of between \$1.5 and \$2.9 million include computer hardware, computer software, support facilities, and the SESAs' one-time programming and set-up expenses. In arriving at these costs, we had to make certain assumptions. These assumptions include:

- The life cycle of the system was estimated at 8 years, from 1984 to 1992. FEDSIM estimated the break-even point for buying the computer hardware instead of leasing at 3 years. After that, buying is less expensive. Leasing for 8 years would cost about \$1.9 to \$4.3 million more than purchasing; therefore, FEDSIM assumed the computer hardware would be purchased.
- The current work force of about 90 million will grow by 18 percent by 1990 to about 106 million. The growth rate was supplied by the Bureau of Labor Statistics. FEDSIM figured the system life to 1992 and projected the work force growth rate from 1990 to 1992. Growth affects costs because additional file space must be procured after a few years of operation to hold the increase in wage information. The additional space would be in the form of two more disk drives of the type estimated as needed in the original hardware configuration.
- An assumption was made that disk, not magnetic tape, would be the storage medium of the central file. We directed FEDSIM not to consider the option of implementing the wage

data base on magnetic tape because of the potential difficulties involved with an all-tape operation and limitations to future enhancements, such as on-line access.

--The central file requires two categories of software: (1) operational and (2) application. Operational software costs were based on existing fees, but the application software must be developed for the central file. Assumptions had to be made about what application software must be developed specifically for the central file. Assumptions also had to be made about what the application software would cost since standard software packages are not available. The application software will merge tapes from the reporting SESAs to generate the central file and must also match records from federal agencies against the file and generate reports on magnetic tape. FEDSIM believed the application software would require 1 staff year of development and testing. FEDSIM estimated the costs of software development, including computer time, at \$100,000.

--We did not verify the estimates of the 41 SESAs for their one-time programming and set-up costs to furnish copies of their files. Most SESAs estimated initial costs to be from about \$300 to \$3,500. However, the estimates ranged from seven SESAs that estimated no initial costs to one SESA that estimated over \$30,000.

Operating costs

The estimated operating costs of \$520,000 to \$710,000 annually included computer hardware, computer software, support facilities, personnel, and the SESAs' recurring expenses in furnishing copies of their wage and employer files. Assumptions made in estimating the system's operating costs include:

--Based on FEDSIM knowledge of similar systems, six people should be able to operate the central file. The people needed are two computer operators, one lead operator, one application programmer, one system programmer, and one data center manager. The salaries were assumed using standard federal pay scales plus an additional 50 percent for other personnel costs.

--Support facility costs include such estimates as \$30 a square foot each year for office space rental based on rates for downtown Washington, D.C., and \$.09 a kilowatt hour for electricity based on rates supplied by the Potomac Electric and Power Company.

Follow-up costs

We were unable to estimate the follow-up costs each agency would have as a result of matching with a central file. These costs would include, for example, the agency expenses to confirm that the matches are accurate and to collect any identified overpayments. Confirming the matches would involve contacting the individual to confirm or refute the match information. The extent of the cost would be affected by (1) the criteria the agency uses in deciding what matches to follow up (e.g., exact matches vs. partial matches and high earnings vs. any earnings) and (2) the accuracy of the data in the central file. While our experience in limited studies, such as on the Veterans Pension program (see p. 26), has shown that the benefits generally outweigh the cost of the match, it is difficult to predict the likely outcome of any program's computer matching. The following chapter describes some of the benefits that could be derived from a central wage file.

CHAPTER 3

A CENTRAL WAGE FILE COULD

HELP IDENTIFY OVERPAYMENTS

Establishing a central wage file should improve the ability of program administrators to identify overpayments to beneficiaries. For example, in one of the many programs that could benefit from the quarterly wage information, we found, through computer matching of beneficiaries with partial wage data from one state, that the program may be overpaying several million dollars annually because of unreported wages. Agency studies show that overpayments due to unreported wages are a major problem in other programs, too. Experience with routine matching at the state level shows that having such information available in a central file could allow program administrators to periodically remove ineligible beneficiaries from the rolls, and furthermore, if beneficiaries know that such routine matching is occurring, they may be deterred from applying for benefits or may voluntarily remove themselves from the rolls.

When planning to conduct a computer matching project, one of the most difficult questions to answer is whether the effort will be worthwhile. Accurately estimating the amount of savings from matching through a central file is not possible. Savings in many cases cannot be predicted because it is difficult to determine how long an ineligible beneficiary might have stayed on the rolls and been paid if not detected through routine matching. Also, actual savings from having a central wage file would depend on how program administrators use the file for matching--that is, how often the matches are made, how many are pursued, and how much of the overpayment is recovered.

The studies discussed in this chapter show that savings should result from matching between federal benefit rolls and quarterly wage information. However, most of these studies included only limited samples whose results could not be projected or were designed only to indicate that a problem exists, making it difficult to identify the exact amount of savings that might result from a central wage file.

A GAO STUDY OF THE VETERANS PENSION PROGRAM DEMONSTRATES MATCHING POTENTIAL

Our study of the Veterans Pension program in one metropolitan area indicated that the program could be overpaying several million dollars to thousands of beneficiaries. The overpayments may occur because beneficiaries have not reported their wages accurately to VA.

The Veterans Pension program pays benefits to needy veterans who are unable to work because of disabilities unrelated to their military service.¹ Among other criteria, the benefit level for pension payments is determined by the beneficiary's income. VA requires each beneficiary to report wages earned, along with other types of income, on an annual report. VA does not check the accuracy of the beneficiary-reported wage amounts against employer-reported wage information, partly because it has no readily available means of doing so.

In 1982, we studied the accuracy of the beneficiaries' reporting of their wages to VA. We performed a test match of (1) the wages reported on the 1981 Veterans Pension program questionnaire by beneficiaries living in the five counties of the Philadelphia metropolitan area and (2) the Pennsylvania SESA quarterly wage information for the three quarters covering January to September 1981. The Philadelphia metropolitan area contains about 2 percent of the total beneficiaries on the Veterans Pension program rolls.

The test produced 270 matches where wages on the SESA file for the 9-month period exceeded the beneficiary-reported wages or the program limits by \$300 or more. We turned these cases over to the VA OIG for follow-up. The OIG reviewed the cases and contacted the individuals and found that 237 of the 270 cases represented overpayments totaling \$947,000. The other 33 cases were correctly paid or VA waived overpayment.

The beneficiaries in the Philadelphia metropolitan area may or may not be representative of the nation as a whole. Nevertheless, the \$947,000 in overpayments identified in just that one area is more than the estimated annual operating costs (\$522,000 to \$710,000) of the entire central wage file.

AGENCY STUDIES SHOW POTENTIAL MATCHING RESULTS

SSA, ED, HUD, and OPM officials all provided studies that their agencies had done, or had done for them, which showed that matching benefit rolls and wage information could identify overpayments.

¹The Veterans Compensation program pays veterans whose disabilities are related to their military service.

Social Security Administration

In 1983, SSA conducted test matches of the SSI benefit rolls with the quarterly SESA wage information in New Mexico, Maine, Massachusetts, and Connecticut. For the New Mexico match, SSA initially reviewed 200 cases. From reviewing these cases, SSA estimated savings of over \$70,000. SSA plans to review the remaining cases (about 400), and assuming similar savings per case, it estimates an additional \$140,500 in savings. The SSA report estimated that, based on the New Mexico results, savings of \$4.5 million could result if the matching were performed throughout the Dallas region.²

The SSA report on the SSI benefit roll matches with wage records in Maine, Massachusetts, and Connecticut concluded that the wage match had proven to be an effective method of discovering overpayments at a minimal cost to SSA. For example, SSA reported that the partial results from the Connecticut match of wages covering three quarters resulted in net savings of \$49,270 after subtracting the cost of matching.

Department of Education

A study³ contracted by ED in 1982 showed that \$101 million in education grants may go to the wrong students each year because the students have not reported all their income. Pell Grants provide cash aid to college undergraduates who demonstrate financial need, and students applying for grants are required to report their income, including wages.

The study compared the income reported by students on 1980-81 school year grant applications to the adjusted gross income on tax returns. Although IRS could not release the identities of individual students to ED because of the disclosure provisions of the Tax Reform Act of 1976, it could report overall results of the match. The match showed that \$101 million in overawards may have been granted because of student failure to report income to ED. Adjusted gross income includes many types of income, including interest and dividends as well as wages (the report did not break out the unreported income by source).

²The SSA director for assistance programs in the Dallas region informed us that the New Mexico SESA did not charge for the match and SSA offices were not asked to prepare cost figures for their work in this match. Therefore, there are no costs to balance against SSA's reported savings.

³Quality in the Basic Grant Delivery System, Department of Education, Contract Number 330-80-0952 (Apr. 1982).

In the report, the consultant concluded that:

"The effect of obtaining correct financial information could therefore be to decrease the funding now going to higher income groups and increase the funding now going to lower income groups."

ED tries to monitor the grant program by having schools manually review about half the student applications. This manual review entails comparing amounts on grant applications to other documentation also furnished by the student, such as pay stubs and copies of income tax returns. One ED official pointed out that there is, of course, no guarantee that a student who is not reporting income on an application is going to furnish all pay stubs or other documentation to the school.

Computer matching could benefit this program by identifying students who fail to report wages and by providing the name and address of the last, and possibly still current, employer. This would enable ED to target its manual enforcement efforts more toward cases where there is evidence that students are not reporting all their wages.

In addition to detecting overpayments, an ED official pointed out that another benefit of the central file would be to locate defaulted borrowers of student loans. The federal government has responsibility for locating and collecting from defaulted borrowers under two parts of the student loan program. (See app. II.) Often when borrowers default, they also fail to report a change of address. ED's San Francisco regional office estimated that using computer matching instead of other methods can reduce the cost of locating a defaulted borrower from \$37 down to \$2 to \$3 a case. These other methods include questioning neighbors of the borrower's last address on file, using postal tracers, and searching cross-reference directories. Employer information in the central file would also show where the defaulted borrower is working and if the borrower is earning enough to resume payments on the defaulted loan.

Department of Housing
and Urban Development

A study by the HUD OIG showed that of 114 family cases reviewed, 37 families had failed to report wages that would have affected rental payments under HUD rental assistance programs. HUD provides a rent subsidy based on family need. As family income rises, the rent subsidy decreases. The study showed that the 37 families failed to report over \$350,000 in income, which resulted in rent undercharges of about \$41,000.

The HUD OIG study compared wage reports by beneficiaries of the Atlanta Housing Authority to wage information in the Georgia SESA file for January 1981 through March 1982. For the sample, HUD reviewed only cases where unreported wages exceeded HUD-established levels by \$1,000 or more. Although not projectable to any HUD universe, the sample reveals a pattern of abuse (32 percent of the cases reviewed) in beneficiaries' failure to report wages accurately.

The study was limited because the HUD OIG found that only 23 percent of the beneficiaries on the Atlanta Housing Authority rolls had provided social security numbers. These numbers were needed to match with the Georgia SESA wage information. Matching would be more effective if beneficiaries were required to furnish social security numbers. (See pp. 19 and 20.)

Office of Personnel Management

Disabled federal workers can have their benefits affected if they earn more than a given percentage of the salary of their former position with the government. OPM administrators monitor wage limits by sending beneficiaries a questionnaire. Beneficiaries' responses to the questionnaire are not checked against employer-reported wage information (except for checking the wages of currently employed federal workers).

OPM officials told us they provided SSA with a statistical sample of Civil Service Disability Retirement beneficiaries to match to the SSA annual wage file. SSA would not release the identities of individuals because of disclosure prohibitions of section 6103 of the Internal Revenue Code (see p. 3), but SSA reported to OPM that 5 percent of the beneficiaries showed unreported wages. Actual overpayments, however, could not be determined because Civil Service Disability Retirement benefits would have to be refigured on a case-by-case basis using data concerning the affected individuals.

STATE AGENCIES' EXPERIENCES SHOW MATCHING SAVINGS

Where state agencies kept records, the results showed that matching state-administered benefit rolls with quarterly wage information produced savings. These state-administered programs, such as AFDC, Food Stamp, and Unemployment Insurance, are similar but not directly comparable to the federally administered programs, such as Veterans Pension, SSI, and Civil Service Disability Retirement, in that both state and federal programs limit wages as an eligibility condition.

Each of the 41 SESAs responded that they provided wage information to the state social welfare agencies. Officials in 7 of the 10 states we visited said that, while they believe such matching was effective in identifying and controlling overpayments, they did not maintain records on the results of the matches. However, three states did maintain records on savings from their quarterly wage reporting systems.

These three states--Massachusetts, New Jersey, and New York--are unique in several ways. First, they collect the quarterly wage information not to administer their unemployment programs, but primarily to check beneficiary wage reports in state-administered programs. Second, the federal government provides limited or no reimbursement and does not pay for these reporting systems. And third, these programs must justify their costs to their state legislatures partly based on the savings they produce from matching wage information and benefit rolls, and they keep records of their programs' cost and savings.

Officials in these three states reported that the quarterly systems have produced enough savings to the state-administered programs to justify their continued existence. For example, in his annual report dated April 1, 1982, the director of the New Jersey Division of Taxation reported to the governor and the legislature that the wage reporting system:

"... has proven invaluable in reducing abuse of public assistance and unemployment compensation programs. Perhaps, more importantly, we are confident the wage reporting systems will in time substantially upgrade public confidence in those programs."

The director of the New Jersey Division of Public Welfare reported that in September 1981, all beneficiaries were sent notices outlining a match between the quarterly wage information and welfare benefit rolls. When the county welfare agencies began to review the matches in October, they discovered that some cases had been closed voluntarily by the client before the review. A review of these closed cases resulted in 889 of them being referred for fraud investigation, with the apparent conclusion that these clients closed their own cases when they realized that the county welfare agency was about to discover their unreported employment.

In another example, New York State officials reported that, although costs of the state's wage reporting system for fiscal years 1982-83 were \$6.3 million, savings to the Department of Social Services from using the system were \$65.7 million, and overpayments identified by the New York Department of Labor from

using the system were estimated at \$10 million. New York officials said that, while the state Department of Labor measures overpayments, the savings for the Department of Social Services represent a reduction or forfeiture of benefits over a 16-month period. These officials said that the average welfare beneficiary stays on the rolls about 32 months, and they estimated that an ineligible beneficiary is detected through matching and removed from the rolls in 16 months, saving about half the benefits that would have been paid.

The New York Civil Liberties Union has questioned the results. For example, one Civil Liberties Union report⁴ alleged that the \$6.3 million identified as costs to operate the wage reporting system does not include all costs associated with the system. The report raised doubts about whether the state wage reporting system would still be considered cost beneficial if other related costs were also included, such as costs to employers to file quarterly wage reports and the follow-up costs to state agencies that receive the matches. Also, the Civil Liberties Union report questioned whether welfare recipients would have stayed on the benefit rolls as long as had been reported by the Commissioner of Social Services when calculating savings from matching with the quarterly wage information.

However, despite such criticism, the 1984 state report on the system asserted that savings produced from this type of matching more than justified the costs of the quarterly wage reporting systems. The report cited continued legislative support to show that the systems were proving themselves to be cost beneficial. Also, the report cites employer awareness of the system's effectiveness in detecting fraud, which has resulted in effective cooperation by employers, a key to the system's success. Because of the additional time and resources that would be required, we did not verify the savings reported by New York.

When planning to conduct a computer matching project, one of the most difficult questions to answer is whether the effort will be worthwhile. While our experience and that of others has shown that the benefits generally outweigh the cost of a match, it is difficult to predict the likely outcome of any given computer matching project.

⁴An Evaluation of New York State's Wage Reporting System: The Real Costs of Computer Matching, prepared by the privacy project of the New York Civil Liberties Union.

CHAPTER 4

CONCLUSIONS AND AGENCY COMMENTS

A central file of quarterly wage information could be an important management tool in controlling overpayments in federally administered benefit programs. This source of employer-reported wage information could provide a simple means to help federal agencies verify the wages reported by beneficiaries of their programs.

The Congress has already determined that the quarterly wage information maintained by the states can be used for matching in certain state-administered federal programs. It has not, however, decided as a matter of public policy whether quarterly wage information collected at the federal government's expense and maintained by state agencies should be used in the administration of all federal welfare, insurance, and disability programs to determine benefit entitlements on the basis of wages.

To date, the use of quarterly wage information in federally administered benefit programs has been limited because the wage information will not be maintained by all states until fiscal year 1989 and, where currently maintained, is maintained in the states. For federal agencies to request information of each state agency is an inefficient procedure that would burden both state and federal agencies.

This report has shown that it would be relatively inexpensive to establish a central wage file. Such a file, using quarterly wage data submitted by the states, would place no new reporting requirements on the nation's employers and would use copies of state computer tapes, which the federal government now pays the states to collect. It would allow the federal government to control the timing and circumstances of its matching efforts and, therefore, not be disruptive to state agencies that currently maintain such data.

However, establishing a central wage file, which would require legislation, raises certain issues about individual privacy and protection for persons whose names, wages, and social security numbers would be recorded in the file. Who should be allowed to use the file and for what purposes? And how can persons be assured they will not be adversely affected by inaccurate data in the file?

In our opinion, information in the central file would be a system of records under the protection of the Privacy Act. However, there is concern that the act's "routine use" provision enables an agency controlling the system of records to determine

almost any purpose as being compatible with the purpose information was originally collected for, thereby making the data readily available to a requesting agency. Also, despite the increasingly widespread use of computer matching, the adequacy of OMB procedures to protect due process rights when agencies follow up on matches has not been adequately evaluated.

We believe that a central wage file, if established, should be accessible only to federal agencies specifically designated by statute to use it and only for specific purposes cited in the statute. Further, specific statutory controls should be established to better prevent unauthorized release of wage-related data. Federal agencies authorized to use results of matches with such a central file should be prohibited from redisclosing the information except as authorized by statute and should be required to involve the individuals affected in the verification process and obtain corroborative evidence if the affected individual disputes the data, to insure that individuals will not be denied or terminated improperly.

Although we did not determine the accuracy of the quarterly records maintained by the 41 states included in our review and used for their benefit payment programs, we noted that 21 of these states do not check for errors they might make when they enter wage data into their systems. Appropriate record entry controls are essential, especially if such records are to become part of a central file.

If the Congress chooses to authorize a central wage file, we believe it can provide additional privacy safeguards that both complement and supplement the Privacy Act and OMB guidelines by

- specifying the agencies and programs that could use the information and for what purposes;
- requiring federal agencies responsible for programs that are not state administered to obtain state wage information through the central file and direct state agencies not to release wage information to federal agencies except on referral from the federal agency given responsibility for the central file;
- requiring state agencies maintaining and copying wage data to maintain appropriate controls for verifying the accuracy of the wage data they record and forward to the central file;
- specifying under what, if any, circumstances the user of wage data would be authorized to disclose such data; and

--requiring agencies using the data to involve the individuals affected in the verification process and to obtain corroborative evidence if the affected individual disputes the data.

AGENCY COMMENTS AND OUR EVALUATION

The Office of Management and Budget and the Department of Labor said there was a need for further review of the issues involved before deciding whether to establish a central wage file.

OMB's comments

OMB favored federal agencies using state wage data until all computer matching options are reviewed. OMB was silent on the privacy issues. We believe privacy issues must be considered in deciding how to deal with this issue.

OMB said that all means-tested entitlement programs need processes for verifying income and eligibility and to that end it intended to propose legislation authorizing federal agencies operating such programs to have access to state employment security agency data. OMB stated that it was premature to decide on the best operational approach for verifying wages and favored a thorough review of options, including federal agency matching at the state level. Such a review would include assessing the results of matching authorized under the Deficit Reduction Act and an ongoing inspectors general project to standardize data exchange formats among a number of programs. According to OMB, a central wage file would be useful only if data entered were routinely validated, which is not the case in many states, and the cost of such validation could be substantial.

We agree that wage data received by states from employers and entered into the state file should be checked to verify that the data were correctly entered. We did not estimate the cost of such verification but noted that in those states that do verify the data such costs are part of the costs reimbursed by the Department of Labor. The extent of such costs for states that do not now verify data would depend in part on the nature and extent of verification undertaken.

Regarding OMB's proposed extension of federal authority to access state wage data, it would appear that federal use of such data, whether through a central file or through matches made directly with states, should require the same degree of validation for accuracy and should ensure that individuals' privacy will be protected. If OMB proposes legislation authorizing access to state wage data for all federal agencies operating means-tested programs (access is already permitted to some

agencies under the Deficit Reduction Act), it should consider what changes are needed to ensure the accuracy of such data and what additional privacy safeguards might be needed. OMB's comments on our report did not address the need for privacy safeguards or whether they would be addressed in the proposed legislation being drafted.

Although we agree that alternatives to a central wage file could be explored further by drawing on recent experience under the Deficit Reduction Act and special projects, such as the inspectors general standardization study, we continue to believe, as discussed on pages 11 to 13 of this report, that the central wage file alternative provides a more efficient and practical alternative than one in which all federal agencies go directly to the states.

Labor's comments

The Department of Labor, in commenting on a draft of this report, stated that establishing a central wage file is neither feasible nor desirable until several issues have been fully examined and a government-wide policy consensus has been reached.

We believe that our study shows that a central wage file is feasible and, because it would allow for verification of eligibility in federal programs that cannot now do so, would be desirable to those administering such programs. However, it may not be desirable because of the sensitive nature of such a file. We agree with Labor that a full examination of relevant issues and a government-wide consensus on these issues should precede any decision to implement such a file.

Civil liberties and rights to privacy

Labor said that a central wage file is sure to heighten public sensitivity about the amount, accuracy, and confidentiality of information obtained by the federal government. Labor believes that the civil liberties and privacy implications of implementing a national file must be carefully considered and said that if a central wage file is implemented, federal legislation limiting its use and ensuring adequate checks for accuracy would be required.

We agree. We believe that the acceptance and utility of a central wage file will depend largely on the system's integrity and safeguards. Provisions for ensuring accuracy, limiting access, and safeguarding against unauthorized disclosure and use should be prerequisites to implementation. We further believe, as mentioned on pages 17, 34, and 35, that it is especially

important that federal agencies using match results involve affected individuals in the verification process to ensure that benefits are not denied or terminated improperly.

Unemployment insurance
federal-state relationship

Labor said that while state administration of the Unemployment Insurance program is financed by federal grants, benefits are financed by state-levied taxes, and states are free to set program parameters regarding the efficient administration of their programs. Consequently, under current law, Labor could not require states to provide wage data to the federal government.

We agree that legislation would be needed if states were required to provide wage data to the federal government for use in a central file.

Federal and state roles

Labor said establishing a central wage file would transfer responsibility for matching of individual-reported and state wage data to the federal level with uncertain results. Labor supports exchange of data at the state level and said that while a central file would make interstate matching more efficient, there is no evidence that this benefit would sufficiently exceed the cost.

We agree that a central wage file would make interstate matching more efficient, but disagree that it would result in transferring all matching responsibility to the federal level. Establishing a central file would permit federally administered programs that do not now have a readily available matching source to have one which would be efficient and could meet their needs without burdening the states. Federal programs that are state administered and not needing interstate matching could continue to match at the state level using existing sources.

Regarding Labor's comment that "there is no evidence that this benefit (efficient interstate cross-matching) would sufficiently exceed the cost," we believe that there is no way to reliably estimate the amount of savings that would be realized through use of a central file. As discussed in chapter 3, the matching that has been done by federal agencies and by states using existing data sources indicates that substantial overpayments can be identified, and some states have indicated that the benefits from such matching have exceeded the costs. The total costs and savings of a central file would depend on how frequently matches are identified, pursued, and verified, and how

much of the overpayments are recovered. The benefits would also include unmeasurable savings that might result from deterring inaccurate reporting because of the existence of a central wage file.

Federal reporting burden

Labor said that requiring states to submit quarterly wage files would add to their reporting burden and may be inconsistent with federal paperwork reduction policies. Labor also said that as the number of programs using the data increases, the number of inquiries to employers will also increase and could result in employers resisting future reporting.

We believe that states providing copies of their already-created wage files would place no burden on employers and create no new data. None of the 41 states we queried objected to sending copies of their data files to a central location. Of these states, 32 said it would not be a difficult procedure, and several said it would be better and less burdensome than performing individual matches at the request of various federal agencies.

Regarding potentially increased inquiries to employers and their effect on future compliance, we believe that while such inquiries could increase, they could be minimized if done only after inability to resolve the validity of a match with the affected individual. Future employer compliance should not be affected because, as stated, reporting of wage data by employers will be mandatory in all states by 1988.

Impact of the Deficit Reduction Act

Labor said that because all states will have to maintain wage records by 1988 as required by the Deficit Reduction Act, most overpayments could be prevented and detected by using state wage records without a centralized data base.

While many programs are state administered, we identified 45 disability and 40 welfare programs that are federally administered. The eight federally administered programs we studied for this report spent about \$37 billion in fiscal year 1982. Each would benefit from wage data in a central file, as would state-administered programs that do not match their files with the wage records of neighboring states.

Cost, operational, and technical considerations

Labor said our projected cost estimates appear to be understated because they did not consider (1) needed data checks to

ensure accuracy and (2) additional data analyses that might be requested by users. Labor also said that it is not clear how the system would be financed and our study did not consider how the system might accommodate additional requirements or future changes.

Our cost estimates did include validation checks that would be made at the central file, but did not include the cost of data verification that would be required of the 21 states that do not do so. The additional costs of such a requirement would depend on the nature and extent of verification undertaken. Our estimates do not include additional data analysis costs because we did not assume the role of the central file to go beyond simple matching.

Regarding the flexibility of the system on which we based our cost estimates, we sized the system based on current expected workload and allowed for twice the capacity. We believe this adequately allowed for flexibility to accommodate any unexpected but necessary additional requirements.

We recognize the uncertainty in any cost estimate, especially when there are unknowns regarding future and follow-up costs. Nevertheless, we believe the costs we estimated, as described beginning on page 22, are a reasonable estimate of the primary costs.

Finally, we did not address who would finance a central wage file because we believed the basic alternatives--general funding or user fees--were recognized and not essential to a determination of feasibility.

EIGHT FEDERAL BENEFIT PROGRAMS SELECTED FOR THIS REVIEW

<u>Program</u>	<u>Purpose</u>	<u>Fiscal year 1982</u>		<u>Responsible agency</u>
		<u>Expenditures</u>	<u>Beneficiaries</u>	
		(millions)	(thousands)	
Social Security Disability Insurance	Replaces part of the wages lost when a worker, under age 65, has a physical or mental impairment that prevents working	\$17,400	4,051	SSA
Supplemental Security Income	Provides supplemental income for persons age 65 or older, blind, or disabled whose income and resources fall below specified levels	6,800	3,900	SSA
Veterans Pensions	Assists veterans in need whose non-service-connected disabilities are permanent and total and prevent them from working	3,879	1,835	VA
Section 8 Housing	Provides decent, safe, and sanitary housing to lower income families and promotes economically mixed housing	4,085	1,527 ^a	HUD
Pell Grant	Provides cash aid to college undergraduates who demonstrate financial need	2,445 ^b	2,606	ED
National Direct Student Loans and Federally Insured Student Loans	Parts of the Guaranteed Loan program, which provides students with low-interest, deferred loans for postsecondary educational expenses ^c	413 ^d	926 ^d	ED
Civil Service Disability Retirement	Provides benefits for career federal employees who are unable to work because of disease or injury	1,200	124	OPM
Federal Employees Compensation Act	Provides benefits to federal civilian employees who suffer on-the-job injuries or occupational related diseases	880	48 ^e	Department of Labor

^aNumber of units.

^b1982-83 academic year.

^cThe federal government is responsible for locating and collecting from defaulted borrowers under these parts of the Guaranteed Loan program.

^dNational Direct Student Loan statistics are for the 1982-83 academic year.

^eNumber on the periodic (continuing) disability rolls only.

LIST OF FEDERAL NEEDS-BASED AND
INSURANCE-BASED BENEFIT PROGRAMS,
BY TYPE OF BENEFIT

NEEDS-BASED BENEFIT PROGRAMS¹

Cash Programs

AFDC - Adoption Assistance	Refugee Assistance-state administered
- Family Group	SSI - Aged
- Foster Care	- Blind
- Unemployed Parent	- Disabled
Earned Income Credit	VA - Dependency and Indemnity Compensation (parents)
Emergency Assistance-Needy	VA - Pension (all)
General Assistance-Indians	

Education Programs

Bilingual Education	Indian Education-School Assistance
Bilingual Educational (Vocational Training)	Indian Higher Education
Centers for Independent Living	Migrant High School Equivalency Program
Chapter One Migrant Programs	National Defense Student Loan
College Assistance Migrant Programs	Pell Grant
College Work Study	Programs for Students from Disadvantaged Backgrounds (TRIO Programs)
Education for Handicapped Children	Rehabilitation Services-Basic Support
Guaranteed Student Loan	Rehabilitation Services-Special Projects
Handicapped Preschool & School Programs	State Student-Incentive Grant
Headstart	Supplemental Education Opportunity Grant
Health Careers Opportunity	Vocational Education-Work Study
Health Professionals School for Indians	

Energy Program

Weatherization Assistance

¹Does not include block grant programs.

Food Programs

Child Care Food	Nutrition Assistance for
Commodity Supplemental Food	Puerto Rico
Emergency Loans	Nutrition for Elderly
(Agriculture)	School Breakfast
Food Distribution - Needy	School Lunch
Families	Special Food - Women/Infant
Food Stamp	Special Milk - Free
Indian Reservations (Food Stamp)	Summer Food - Children

Housing Programs

Congregate Housing Services	Mortgage Insurance - Market
Farm Labor Housing Loan/Grant	Rate
Home Ownership Assistance	Rehabilitation Loans
Housing for Elderly or	Rent Supplements
Handicapped	Rural Housing Loans
Indian Housing	Rural Housing Repair Loan/
Improvement	Grant
Interest Reduction Payments	Rural Housing Site Loans
Lower Income Housing	Rural Rental Assistance
Assistance	Payments
Low-Rent Public Housing	Rural Rental Housing Loans
Mortgage Insurance - Low	Rural Self-Help Technical
Income	Assistance

Medical Programs

Community Health Centers
 Indian Health Services - General
 Medicaid
 Medical Assistance to Refugees
 Migrant Health Centers

Service Programs

Child Welfare Services
 Entrant Assistance - Cuban/Haitian
 Indian Child Welfare
 Indian Employment Assistance
 Indian Social Services - Child Welfare
 Legal Services
 Special Program for Aging
 Social Services for Refugees
 Special Program for Aging Indians

Labor Programs

Employment Services
 Employment Training Dislocated Workers
 Job Corps
 Migrant & Seasonal Farm Worker
 Senior Community Program
 Summer Youth Employment
 Trade Adjustment Assistance
 Veterans Employment

INSURANCE-BASED BENEFIT PROGRAMSCash ProgramsAir Force

Disability
 Retirement
 Survivors

Army

Disability
 Retirement
 Survivors

Department of Labor

Black Lung
 Federal Employees
 Compensation
 Federal Unemployment
 Compensation
 Servicemen's Unemploy-
 ment Compensation
 State Unemployment
 Compensation

Federal Civil Service

Disability
 Retirement
 Survivors

Navy

Disability
 Retirement
 Survivors

Marines

Disability
 Retirement
 Survivors

Railroad

Disability
 Retirement
 Survivors
 Sickness
 Unemployment Compensation

Social Security Administration

Black Lung
 Disability
 Retirement
 Survivors

Veterans Administration

Adjusted Service & Dependency Pay
 Burial Expense Allowance
 Burial Plot Allowance
 Clothing Allowance (Disabled)
 Disability Compensation
 Dependency and Indemnity
 Compensation (Spouse/Children)
 Education-Veterans/Military
 Education-Wives/Children
 Flag to Drape Coffin
 Grants-Autos and Equipment for
 Disabled
 Grants-Specially Adapted Housing
 Headstone or Grave Marker
 Invalid Lifts and Other Devices
 Mortgage Life Insurance
 (Adapted Housing)
 Special Allowance for Dependents
 Special Benefits for Certain Retired
 Special Pension for Medal of Honor
 Vocational Rehabilitation

Medical Programs

Department of Health and Human Services -
Health Care Financing Administration

Medicare - Hospital
 Medicare - Supplementary Medical

Department of Labor

Black Lung - Medical

Veterans Administration

VA Hospital and Medical Benefits

Total benefit programs

Needs-based programs	85
Insurance-based programs	<u>51</u>
Total	<u><u>136</u></u>



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 20 1985

Mr. William J. Anderson
Director
General Government Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

This is in response to your request of February 8, 1985 for our review and comment on the draft proposed report entitled A Central Wage File for Use by Federal Agencies: Benefits and Concerns.

We agree with GAO that appropriate income and eligibility verification processes need to be installed in all means-tested entitlement programs and that federally operated means-tested entitlement programs would benefit from information on beneficiaries' wages. To that end, we are proposing legislation that will authorize access to State employment security agency data by the federally operated programs referred to in your draft report. It is premature, however, to decide on the best operational approach to achieve such verification.

Before the best approach can be determined, it is important to review a number of options which are still evolving. This review should include:

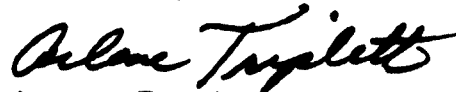
- o the GAO proposal to establish a central wage file;
- o the implementation of the Deficit Reduction Act provisions requiring income and eligibility verification in a number of programs, including SSI; and
- o the results of the project conducted by the Inspectors General to establish standardized formats for data exchange among a number of programs, including Unemployment Compensation.

This review would help determine the best way to serve the verification needs of Federal programs whether they are decentralized like SSI and Veterans pensions or not. We may find that the matching of files with Federal programs can be carried out effectively at the State level.

In addition to our recommendation for a thorough review of the implementation options, we have specific concerns about the GAO recommended approach. The current State Employment Security Agency systems may not be sufficient to support the proposed activity. Currently, the State wage files are not usually validated for accuracy until a claim for Unemployment Compensation is filed; a central file would only be useful to the entitlement programs if such validation were conducted routinely. The costs of such an undertaking could be substantial and should be added to the GAO cost estimates.

Thank you for the opportunity to review your draft report.

Sincerely,



Arlene Triplett
Associate Director
for Management


U.S. Department of LaborAssistant Secretary for
Employment and Training
Washington, D.C. 20210**APR 5 1985**Mr. Richard L. Fogel
Director
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

In reply to your letter to Under Secretary Ford B. Ford requesting comments on the draft GAO report entitled "A Central Wage File For Use By Federal Agencies: Benefits and Concerns," the Department's response is enclosed.

The Department appreciates the opportunity to comment on this report.

Sincerely,


FRANK C. CASILLAS
Assistant Secretary for
Employment and Training

Enclosure

U. S. Department of Labor's Response To
The Draft General Accounting Office Report
Entitled--

A CENTRAL WAGE FILE FOR
USE BY FEDERAL AGENCIES:
BENEFITS AND CONCERNS

The Department of Labor (DOL) has reviewed the above draft GAO report and has concluded that the establishment of a central wage file system using wage record files gathered by State employment security agencies is neither feasible nor desirable until significant issues concerning: 1) the protection of civil liberties and individuals' rights to privacy; 2) the UI Federal-State relationship; 3) Federal and State roles; 4) the Federal reporting burden; 5) impact on the Deficit Reduction Act (DRA); and 6) other cost, operational, and technical considerations associated with such a system have been fully examined and a governmentwide policy consensus reached on these issues. The Department's concerns about these matters are described below.

The GAO draft report pre-dates enactment of the Deficit Reduction Act and the promulgation of the Department's proposed rules for the establishment of income and eligibility verification procedures required under this Act. The Department has long been an advocate of wage record conversion and believes that implementation of the Deficit Reduction Act will adequately advance the Department's ability to protect the integrity of these programs. Accordingly, the Department believes that it should await the results of the implementation of the Deficit Reduction Act before initiating additional remedies.

Civil Liberties and Rights to Privacy. Before serious consideration is given to the creation of any type of central wage file, the civil liberties and privacy implications of implementing a large-scale national wage file for cross matching purposes must be carefully considered. There already exists intense public sensitivity about the amount, accuracy, and confidentiality of information obtained by the Federal Government. A centralized wage file is sure to heighten those sensitivities. The report itself raises concern that the Privacy Act would not sufficiently limit the disclosure of personal records. There is also concern about the accuracy of the UI wage data in terms of its use for the purposes that are contemplated. Because the UI system verifies wages when a UI claim is filed, only 21 of the 41 wage record States check the data at the time of data entry for data recording errors; this raises questions about the feasibility of using this data to determine benefit eligibility among various Federal programs.

If a central wage file is implemented, stringent safeguards limiting its use and ensuring adequate checks for accuracy would certainly be required. Additional Federal legislation would also likely be needed to satisfy these concerns.

UI Federal-State Relationship. State administration of the UI program is financed by Federal grants from resources provided by the Federal unemployment tax (currently 0.8 percent of the first \$7000 of a covered worker's wages). Benefits are financed by State levied taxes within broad requirements imposed by Federal legislation. States are free to set program parameters such as benefit levels, durations, and tax rates as well as to collect any data, including wage record data, they believe will contribute to efficient administration of their individual State UI programs. The DOL could not require States to provide the Federal Government with wage record data, which in some States is not even maintained by the UI agency, for cross matching with non-UI data without legislation.

Federal and State Roles. Presently most computer matching efforts take place at the State or substate level where the vast majority of successful matches occur. Generally, Federal program oversight agencies do not receive this information so that any cross matching currently done is at the State level. (The exception is the child support intercept program.) The Department fully supports exchange of data at the State level among programs to reduce fraud and abuse. The establishment of a national wage file would transfer this responsibility to the Federal level with very uncertain results.

While a central wage file could be used to reduce overpayments, it is not clear that there would be substantial benefits over currently available capabilities that exist at the State level. Creating a central wage file would make interstate cross matching more efficient, but there is no evidence that this benefit would sufficiently exceed the cost.

Federal Reporting Burden. Currently 41 States collect wage record data and do not report any of that information to the Federal Government. Requiring States to submit the wage record files on a quarterly basis would add substantially to the UI reporting burden and may be inconsistent with the Paperwork Reduction Act, as well as Federal policies emphasizing less reporting generally.

Increased use of wage record data also runs the risk of loss of employers' cooperation and their lobbying for elimination of wage records altogether. Because UI wage data are quarterly and because data errors exist, the files alone cannot be used for verifying eligibility and benefit amounts. In UI, and in other programs which use the data for cross matching purposes, wages are verified with each employer subsequent to the cross match to ensure the accuracy of the wages reported and the duration of employment. As the number of programs which use the data increases, the number of inquiries to employers will also increase. As a result, employers flooded with inquiries may no longer respond or may even resist reporting quarterly wages.

Impact of the DRA. This report preceded passage of the Deficit Reduction Act which requires that after September 30, 1988, employers will report quarterly wage data to SESAs or to alternative State agencies. These data are to be used for eligibility verification purposes. The Deficit Reduction Act provisions are likely to foster prevention and detection of most overpayments without a centralized data base.

Cost, Operational and Technical Considerations. Cost estimates of operating the system provided in the report appear to be underestimated. UIS experience with data bases fed by State input suggests that costs would be higher--for instance, to introduce data checks to insure accuracy. Additional costs would likely be incurred once users become familiar with the available information and request various analyses of the data. A good example might be the demand not just to provide matches indicating fraudulent claims, but also screening to determine which fraudulent claimants it would be cost effective to pursue. The draft report does not fully identify such likely uses, adequately project costs, or indicate how such a data system might appropriately be financed. Further, no consideration is given to the design of a system flexible enough to accommodate additional information requirements or system changes as various needs arise.

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