G A O

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Highlights

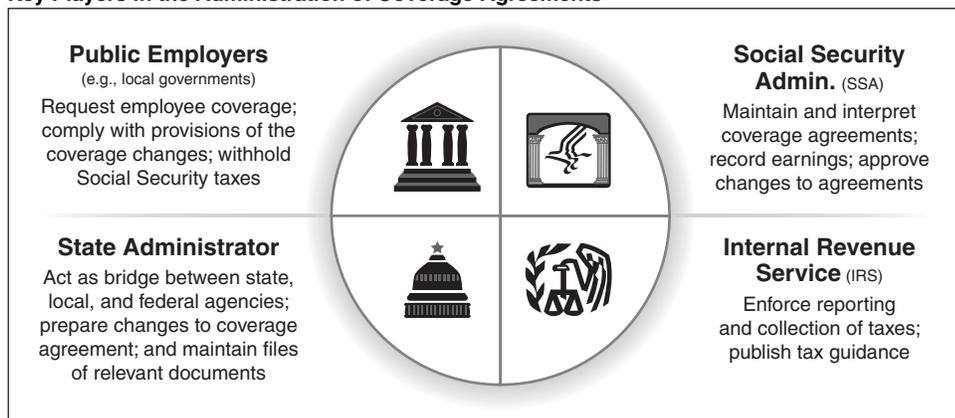Highlights of GAO-10-938, a report to congressional requesters

SOCIAL SECURITY ADMINISTRATION

Management Oversight Needed to Ensure Accurate Treatment of State and Local Government Employees

Why GAO Did This Study

In 2007, 73 percent of state and local government employees were covered by Social Security. Unlike the private sector where most employees are covered by Social Security, federal law generally permits each public employer to decide which employees to cover. The Social Security Administration (SSA) is responsible for facilitating Social Security coverage for these employers through agreements with states. SSA is also responsible for maintaining accurate earnings records, while IRS is responsible for ensuring Social Security taxes are paid. Because of the need to ensure Social Security coverage is administered accurately, GAO was asked to review (1) how SSA works with states to approve Social Security coverage and ensure accurate coverage of public employees, and (2) how IRS identifies incorrect Social Security taxes for public employees. GAO reviewed procedures of federal agencies and selected states; surveyed all state administrators; and reviewed IRS case files.

What GAO Recommends

GAO recommends that SSA work with IRS, state administrators, and public employers to improve management oversight and monitoring of public employer reporting of Social Security wages and that SSA clarify its guidance on state administrator responsibilities. GAO also recommends that IRS track errors found through compliance efforts and share results with SSA to the extent permitted by law. SSA and IRS reviewed the report and agreed with the recommendations.

View GAO-10-938 or key components. For more information, contact Daniel Bertoni at (202) 512-7215 or bertonid@gao.gov.

What GAO Found

Although SSA approves Social Security coverage on behalf of state and local government employers, it faces challenges in ensuring accurate reporting of Social Security earnings. SSA works with states to establish and amend Social Security coverage agreements, but public employers do not always know that SSA's approval is required. For example, a small fire district in one state reported Social Security wages for more than a decade without approved coverage to do so, not realizing a coverage agreement between SSA and the state was required. While state administrators are responsible for managing the approved coverage agreements for public employers, SSA's guidance does not specify how states should go about fulfilling this responsibility, leading to variation in the extent to which states meet their responsibility. SSA lacks basic data on which public employers have approved coverage and relies on public employers to comply with coverage agreements voluntarily. SSA officials told us that the agency does not use existing information, such as lessons learned from prior coverage errors, to assess the risks that these errors pose to the accuracy of public employer wage reporting.

Key Players in the Administration of Coverage Agreements

Public Employers (e.g., local governments)
Request employee coverage; comply with provisions of the coverage changes; withhold Social Security taxes

Social Security Admin. (SSA)
Maintain and interpret coverage agreements; record earnings; approve changes to agreements

State Administrator
Act as bridge between state, local, and federal agencies; prepare changes to coverage agreement; and maintain files of relevant documents

Internal Revenue Service (IRS)
Enforce reporting and collection of taxes; publish tax guidance

Source: GAO analysis of agency documents.

IRS conducts compliance checks and examinations of public employers; however, examining Social Security coverage for employees is challenging due to limited data and the difficulties of determining whether employees are covered. To obtain needed data, one IRS field office sent its examiners to the SSA regional office to make copies of Social Security coverage agreements. Some other IRS field offices do not have copies of all their respective agreements. IRS tracks the results of its examinations to identify the number of public employers that need tax adjustments; however, IRS does not track whether the tax adjustments relate to Social Security coverage agreement errors even though this information is available during examinations. SSA could benefit from such information so that it could help public employers identify and correct errors. As a result, IRS's and SSA's ability to fully understand problems related to Social Security coverage is limited.

_____ **United States Government Accountability Office**