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GAO

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

October 1989

SOCIAL SECURITY

Resolving Errors in Wage Reporting





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

Human Resources Division

B-236794

October 17, 1989

The Honorable Andrew Jacobs, Jr.
Chairman, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

In 1987, we issued a report stating that the Social Security Administration (SSA) and the Internal Revenue Service (IRS) were failing to resolve differences in wages that existed in about 3.5 million employer wage reports for tax years 1978-84.¹ As a result, about \$58 billion in earnings may not have been credited to workers' accounts. The failure to credit workers' earnings can affect benefit eligibility or cause benefits to be underpaid. Before we issued our report, SSA had begun efforts to reconcile cases in which differences existed.

This letter responds to your November 2, 1988, request that we examine SSA's efforts to reconcile cases in which employers reported lower amounts of wages to SSA than to IRS. You asked (1) why SSA's success in reconciling backlogged wage reports by telephoning employers has been less than SSA originally estimated and (2) whether SSA should alter the dollar threshold it uses to decide which employers to telephone. Your office also asked for information on

- the reconciliation results achieved from both mailing letters to employers (SSA's routine approach) and telephoning them,
- the reasons why telephoning employers is not always successful, and
- the resources SSA has devoted to telephoning employers (see app. I).

Results in Brief

By telephone, SSA has been able to reconcile some cases that it had been unable to reconcile using its routine practice—mailing letters. SSA's telephone success rate, however, was much less than initially estimated by two internal studies. Two factors accounted for this. The study samples provided unreliable estimates, and the resolution of some cases was incorrectly attributed to telephone reconciliation rather than other SSA activities.

¹Social Security: More Must Be Done to Credit Earnings to Individuals' Accounts (GAO/HRD-87-52, Sept. 18, 1987).

To reconcile differences in wage reports, SSA must ask employers why they reported lower amounts of wages to SSA than they did to IRS. SSA reaches employers by routinely sending them a computer-generated letter that (1) identifies the specific year(s) in question and the amount of wages in dispute and (2) asks for information needed to resolve the wage differences. If an employer does not respond within 60 days, SSA will send a follow-up letter. When an employer submits wage reports in response to the inquiry, SSA uses these reports to make necessary adjustments in workers' accounts. If the employer does not respond to either letter or states that it no longer has information needed to resolve the reporting difference, the case remains unreconciled.

Beginning in 1987, SSA explored the possibility of telephoning employers that had not responded to either of its two letters. Before committing itself to this added and more labor-intensive reconciliation effort, SSA conducted two studies to determine (1) potential success rates from telephoning and (2) if success rates were likely to vary relative to the amount of wages that were underreported. One study examined 80 cases with understated wages of at least \$500,000 and reported resolving 19 percent of such cases by telephone. The other study examined 80 cases with understated wage amounts between \$50,000 and \$499,999 and reported resolving 11 percent of such cases by telephone. After SSA conducted the two studies, it decided to call only employers with at least \$500,000 in wage differences.

In August 1988, your Committee asked for our views on the application of the \$500,000 threshold. Our September 16, 1988, letter to you stated that given SSA's limited resources, it was reasonable for SSA to concentrate on cases affecting the largest number of workers. We stated that the success rates reported by the two studies, however, may not have been statistically reliable. Thus, we concluded further consideration of the threshold amount was warranted.

In early fall 1988, your staff told us that SSA said the following: in only about 4 percent of the cases had employers who were telephoned actually provided SSA with information to resolve reporting differences.² This situation precipitated your current request letter asking (1) why SSA's actual telephone experience was far below that projected by the study findings and (2) whether SSA's threshold for telephone reconciliation should be revised.

²As of November 1988, the success rate for cases resolved by telephone had increased to 9.7 percent (see app. I).

probable success for reconciliation. Using these characteristics to target employers for telephone calls should give precedence to those cases with the best potential for correcting workers' accounts.

For example, one characteristic that could be considered is whether the employer had received SSA's previous reconciliation letters. Our analysis of the outcome of all SSA telephone attempts as of November 1988 showed the following: SSA was three times more successful in contacting and obtaining a commitment to cooperate from employers that had apparently received its earlier reconciliation letters than from those that had not received the letters (see table 1). This analysis indicates that in targeting for telephoning, SSA should give priority to those employers it locates by mail.

Table 1: Outcomes of Telephone Attempts (as of Nov. 1988)

Telephone attempt	Cases	
	Number	Percent
To reach employers that had received letters:	8,022	100
Employers reached that agreed to cooperate	4,204	52
To reach employers that had not received letters:	1,573	100
Employers reached that agreed to cooperate	244	16

Another characteristic that may correlate with reconciliation success relates to subsequent employer reporting. If wage reports for periods subsequent to the year(s) in question have not been filed with SSA or IRS by an employer and letters to the employer have been returned to SSA as undeliverable, it appears unlikely that the employer will be located. Consequently, SSA's targeting scheme could give priority to those cases for which subsequent reports have been filed.

Conclusion

Telephoning employers can resolve wage-reporting problems that were not resolved by sending letters. But telephone reconciliation has had limited success; it is a time-consuming and resource-intensive process that should, therefore, be used judiciously.

SSA's reconciliation experience indicates that it should consider characteristics other than the dollar amount of understated wages, for example, whether SSA had previously located employers or received subsequent wage information. Considering such characteristics should assist SSA in following those cases with the greatest chances of reconciliation.

Table I.1: Results of 9,595 Telephone Attempts (as of Nov. 1988)

Telephone attempt	Number	Percent
Cases for which employer agreed to provide wage data	4,448 ^a	46.4
Cases for which no data are expected	5,147	53.6
Total	9,595	100.0

^aOf this number, in 926 cases (9.7 percent), employers provided the requested data.

We did not review all cases to determine the reasons why reconciliation contacts failed. Our review of several hundred cases and discussions with SSA officials, however, indicated that SSA frequently was

- unable to obtain a current telephone number for the employer;
- provided with a telephone number for the employer, but there was a change in ownership and the new owner did not have the records being sought by SSA;
- unable to reach the employer after three telephone attempts to what SSA believed was the current telephone number because the employer either did not answer or did not return SSA's call;
- informed that the employer no longer had wage information available to assist in resolving reporting difference (IRS requires employers to retain such records for 4 years); or
- unable to gain an employer's cooperation in complying with SSA's reconciliation request.

Telephone Resources

You asked (1) how many SSA employees have been involved in the telephone reconciliation work, (2) how long and over what period has SSA telephoned employers, and (3) the cost of telephoning employers.

SSA does not maintain records to track actual resources devoted to telephone reconciliation. A core staff, an SSA official said, is responsible for both mail and telephone work. Staff from this group, he said, are reassigned to make telephone calls as other work priorities permit. Generally, the staff begin making telephone calls in December or January of the fiscal year, following completion of the mail effort; in addition, the number of staff assigned to telephoning employers varies based on how quickly SSA wants to complete the workload. SSA has usually assigned about 12 persons for 3 to 4 months to make the calls. In January 1989, based on budget data, SSA's internal audit office estimated that it cost SSA about \$318,000—direct and indirect staff time—to complete the telephone reconciliation cases.

**Appendix II
Comments From the Department of Health
and Human Services**

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reflects a misunderstanding of the causes for this difference. The confusion seems to be over timing. In its initial study, SSA attempted telephone contacts immediately after the processing year. The resolution rate for these study cases was 19 percent. We did not use this same approach with actual cases. Instead, we waited 90 days to begin work on actual cases based on our experience that a significant percentage of cases resolve themselves in that period. This 90-day waiting period resulted in 15 percent of the cases being resolved through normal reconciliation or other SSA earnings maintenance activity. Four percent of the cases were resolved by telephone contact. We believe that the report should be clarified to explain that the differences in estimated and projected telephone success rates result from the inherent fluctuating nature of the reconciliation and earnings maintenance processes, rather than the factors that the report currently cites.

We would add that the findings of SSA's initial study on telephone reconciliation were fully substantiated by the second internal study conducted by our Office of Program Integrity and Reviews.

Page 4, paragraph 1

The language of this paragraph should be revised to clearly denote that SSA receives annual and IRS receives quarterly wage reports from employers. As currently written, the report implies that SSA and IRS both receive annual and quarterly wage reports.

Appendix I, "Mail Reconciliation: Workload and Results"

This section of the report notes that "SSA mailed a first, and if necessary, a second letter for 18,563 cases (totaling \$41.6 billion in understated wages) covering tax years 1978-83 to 16,100 employers." This statement should be clarified to clearly indicate that the 18,563 cases referred to are for employers with wage involvements or discrepancies of \$500,000 or more. They do not represent the entire universe of reconciliation mailings. The clarification should serve to minimize any confusion on the part of the reader, particularly since the Appendix presents data on several categories of reconciliation workloads for several different time periods. Moreover, we believe the clarification is needed to allow appropriate comparison of the data in this GAO report to the various reconciliation data and status reports that we provide to Congress on an ongoing basis.

Now on p. 2, para. 6.

Major Contributors to This Report

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**Appendix II
Comments From the Department of Health
and Human Services**

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Appendix I, "Telephone Reconciliation: Workload and Results"

This section leaves the impression that SSA completed work on 12,846 cases, but records existed for only 9,595. The report language should be revised to indicate that SSA had records for all 12,846 cases, but GAO limited its review to 9,595.

Comments From the Department of Health and Human Services

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE
GENERAL ACCOUNTING OFFICE DRAFT REPORT, "SOCIAL SECURITY:
RESOLVING WAGE REPORTING ERRORS"

General Accounting Office (GAO) Recommendation

That the Commissioner revise the method used to target employers that the Social Security Administration (SSA) will telephone to resolve wage reporting problems by emphasizing that factors such as whether (1) SSA has previously located employers and (2) employers who have filed recent wage reports should be considered in addition to the amount of wages being reconciled.

Department Comment

We agree with the thrust of this recommendation, and we will consider GAO's suggested methodology as we continue our deliberations on how best to approach telephone reconciliation in the future. As the report notes, telephone reconciliation is a time-consuming and resource-intensive process. It must be used judiciously. Our goal is to develop the most efficient, cost-effective process for resolving wage reporting differences.

We would note that current plans for reconciliation preclude a change in our approach for tax year (TY) 1984 through 1986 cases. We are already committed to a reconciliation schedule for these cases which will allow us to complete our reconciliation activity and refer unresolved cases to the Internal Revenue Service (IRS) for penalty action by November 1, 1989.

Other Comments

The comments below are intended to improve the accuracy and clarity of GAO's report.

Page 1, paragraph 1

The \$58 billion relates to TY 1978 through TY 1984, not for TY 1978 through TY 1983 as indicated in the report.

Pages 2 - 3, "Results in Brief" and Pages 6 - 7, "Why Telephone Results Are Below Expectations"

In these sections of the report, GAO makes the point that SSA's telephone success rate was much less than initially estimated by two internal studies. The report says two factors account for this: (1) The study samples provided unreliable estimates; and (2) the studies overstated the success rates by including results resolved by means other than telephone contact. While we acknowledge the difference in the estimated (19 percent) and actual (4 percent) success rates, we believe that the GAO report

Now on pp. 1-2
and p.4

Reconciliation: Workload, Results, and Costs

You requested that we determine (1) the comparative results achieved by mailing letters and telephoning employers that underreported wages by \$500,000 or more to SSA, (2) the reasons why telephone reconciliation sometimes fails to resolve wage-reporting problems, and (3) the amount of resources SSA devotes to telephone reconciliation. We reviewed SSA data on the results of its reconciliation efforts for cases related to tax years 1978-83 wage reporting. The results of our analysis follow:

Letter Reconciliation: Workload and Results

You asked for information on the number of cases with wages underreported by at least \$500,000 for which (1) SSA mailed reconciliation letters to employers, (2) employers responded to SSA's letters, and (3) employers provided SSA with wage information.

For 18,563 cases, SSA mailed a first and, if necessary, a second letter to 16,100 employers that underreported wages by at least \$500,000 to SSA (totaling \$41.8 billion in understated wages) for tax years 1978-83. As of January 23, 1989, employers had responded to SSA for 9,152 cases. Included in these responses were

- 3,790 cases in which employers provided SSA with other information, such as employer identification numbers under which employers had previously filed reports with SSA;
- 3,371 cases in which employers submitted additional wage reports to SSA; and
- 1,991 cases in which employers advised SSA that they no longer had the wage information.

Telephone Reconciliation: Workload and Results

You asked us to provide information on the number of cases for which (1) SSA attempted to telephone employers and (2) employers agreed to provide SSA with the requested information. You additionally asked for the reasons why SSA's attempt to telephone employers sometimes did not result in reconciliations.

As of November 1988, an SSA official said, SSA had identified 12,846 potential cases (tax years 1978-83) for telephone reconciliation. An SSA analysis of these cases showed that only 9,595 of them required telephone calls. This is because SSA had received wage information from the employers since the time the cases had been identified as potential cases. We limited our analysis to the results achieved for the 9,595 telephone attempts (shown in table I.1).

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Abbreviations

HHS	Department of Health and Human Services
IRS	Internal Revenue Service
SSA	Social Security Administration

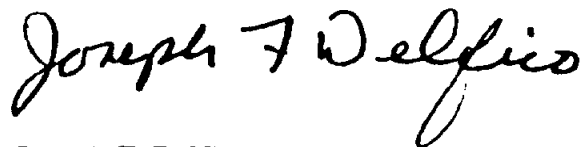
Recommendation to the Commissioner

We recommend that the Commissioner revise the characteristics considered in targeting employers that SSA will telephone to resolve wage-reporting problems. In addition to the amount of wages being reconciled, the Commissioner should emphasize characteristics such as whether (1) SSA has previously located employers or (2) employers have filed recent wage reports.

Agency Comments

The Department of Health and Human Services (HHS) commented on this report in a September 7, 1989, letter (see app. II). We have modified our report to reflect HHS's suggested technical revisions. In general, HHS said it agreed with the thrust of our recommendation and that SSA would consider our suggested methodology for future telephone reconciliations.

Sincerely yours,



Joseph F. Delfico
Director, Income Security Issues
(Retirement and Compensation)

Why Telephone Results Are Below Expectation

Two fundamental reasons account for telephone reconciliation results being below expectation. First, because the studies were not based on randomly sampled cases, they were unreliable for predicting telephone success. We found that SSA arbitrarily selected cases by certain characteristics to ensure that a broad spectrum of geographic areas would be included. In addition, SSA split its sample so that half of the cases were employers that had apparently received its previous letters, but had not replied; the other half were employers that had not received the letters (which had been returned to SSA as undeliverable). Using this sampling approach, all wage reports did not have an equal chance of being selected for the study. Thus, reliable extrapolations cannot be made to the universe of cases from which the sample was drawn.

Second, the studies overstated the success rates. This occurred because the telephone success rates included cases resolved by SSA activities other than telephone contact. SSA telephoned employers for study cases soon after it had attempted to correspond with them by mail. In effect, SSA did not allow time for study cases to be resolved by mail reconciliation. For example, in one 1983 case for \$6.8 million, the employer, when telephoned, informed SSA that 3 months earlier it had submitted information that SSA had requested by letter. In this case and at least two others, the reconciliation was improperly attributed to telephone calls—effectively overstating the success rate. Since the study, SSA waits at least 90 days before telephoning employers and also checks its records to see if employers have recently submitted previously requested information.

Even though SSA has not been able to resolve as many cases by telephone as it originally anticipated, we believe that SSA's efforts have demonstrated that telephoning employers can reconcile some cases for which letters have failed. Telephoning allows SSA to better pursue needed information by requesting referral to appropriate persons within employers' organizations. This feature of telephoning can overcome situations in which SSA's reconciliation letters may have been ignored or routed to inappropriate persons within employers' organizations.

Telephone Threshold Should Be Revised

With no earlier experience in telephone reconciliation, SSA established its threshold based on the amount of the wages potentially understated. SSA hoped that such a threshold would target cases with the greatest potential for payoff (that is, the higher the dollar amount, the greater the number of workers likely to be involved). Today, however, reconciliation experience indicates that certain other characteristics may predict

Currently, SSA only telephones employers if wage-reporting differences are at least \$500,000—an arbitrary threshold. There is no generally recognized standard that defines what the threshold should be. But our work indicates that SSA could increase the chances of obtaining previously unreported wage information by devoting more effort to reaching employers (1) whose whereabouts are known to SSA or (2) who had recently submitted wage reports to SSA indicating they were still in business and might have information needed to resolve the reporting problem. Putting more effort into these types of cases could improve SSA's success rate and result in the reconciliation of some cases below its current \$500,000 threshold without increasing SSA's commitment of resources.

Scope and Methodology

We concentrated our review on SSA's efforts to reconcile differences in the wages employers reported to it and IRS for tax years 1978-83. At the time of our review, SSA had not yet completed reconciliation of 1984-86 cases. Our work focused on cases with a difference of at least \$500,000; it was done at SSA headquarters between January and May 1989.

We interviewed SSA officials concerned with (1) the wage reconciliation process, (2) two internal studies that examined the feasibility of telephoning employers to reconcile wage reports, and (3) the systems used to track the status and results of reconciliation work. In order to corroborate the reasons SSA gave us as to why some telephone reconciliation attempts were unsuccessful, we examined several hundred records documenting the results of SSA's telephone calls to employers.

The results achieved by telephone calls are based on our analysis of manual tabulations provided by SSA. Given the time constraints and the difficulty involved in verifying these tabulations (because of incomplete record keeping), we did not test their accuracy. We did, however, compare the telephone reconciliation results provided by the program office with results obtained in an internal SSA audit.

Our work was done in accordance with generally accepted government auditing standards. Major contributors to this report are listed in appendix III.

Background

The annual wage reports that employers file with SSA are compared with the quarterly wage reports they file with IRS. From this comparison, SSA learns of employers who reported more wages to IRS than to SSA.

