

U.S. Senate

Committee on Finance

Statement for the Record

Administrative Challenges Facing the Social Security Administration

**The Honorable Patrick P. O'Carroll, Jr.
Inspector General, Social Security Administration**

March 14, 2006

Good Morning, Chairman Grassley, Senator Baucus, Members of the Senate Finance Committee. I am pleased to be here today to be a part of the discussion on Administrative Challenges Facing the Social Security Administration. While there are various challenges that SSA faces, I would like to specifically focus on the issue of unauthorized workers in the U.S. and how it contributes to one of SSA's greatest challenges - erroneous wage reports held in SSA's Earnings Suspense File (ESF).

The impact of unauthorized workers in the U.S. is an area in which my office has performed significant audit and investigatory work, as it relates not only to SSA program administration, but to broader concerns of illegal immigration and homeland security.

Unauthorized Work in the United States

Title II of the Social Security Act requires SSA to maintain the reported earnings records of individuals. SSA uses these reported earnings to determine individuals' eligibility for, and amount of, retirement, survivors, disability and health insurance benefits. SSA validates the names and Social Security numbers (SSN) on the Wage and Tax Statements (Forms W-2) it receives against information in its own records. When an earnings report contains a name and/or SSN that does not match SSA's records and cannot be resolved, the report cannot be posted to an individual earnings record in SSA's Master Earnings File. Instead, the report is posted to the ESF, a repository for unmatched wages.

From Tax Years (TY) 1937 through 2003, the most recent year for which data is available, the ESF accumulated about 255 million wage reports, representing \$520 billion in wages, that SSA remains unable to resolve. As of October 2005, approximately 8.8 million wage reports, representing \$57.8 billion in wages, remained in the suspense file for TY 2003 alone. Unless corrected, suspended wages could reduce the amount of benefits paid to individuals and their families.

SSA has stated that it believes unauthorized work by non-citizens is a major cause of wage items being posted to the ESF instead of an individual's earnings record.

Another indicator of unauthorized noncitizens working in the U.S. is the Nonwork Alien, or NWALIEN file. This is a file of noncitizens who have received earnings using a nonwork Social Security number. SSA assigns nonwork SSNs to noncitizens lacking Department of Homeland Security (DHS) work authorization but who have valid nonwork reasons for the SSNs. In recent years, SSA has strictly limited the assignment of these numbers. Despite the fact that such

SSNs are not to be used for work purposes, some noncitizens continue to work under these numbers and SSA is required to post the earnings reported under these nonwork SSNs.

By law, SSA annually sends DHS an electronic version of the NWALIEN file to provide information on noncitizens who have earnings recorded under SSNs assigned for nonwork purposes. This file is sent 6 to 18 months after the earnings occur.

In May 2005, SSA reported to the Senate Judiciary Committee that for TY 2003 SSA credited earnings under 555,227 individual nonwork SSNs.

The issue of unauthorized noncitizens working in the U.S. is a complex issue that directly contributes to SSA's problem of erroneous wage reports held in the ESF and the NWALIEN files.

Over the years, SSA has developed various tools to assist employers in verifying a worker's SSN, so that Social Security can properly credit employees' earnings records.

Current Verification Processes

Because one of the SSA's most important responsibilities is to maintain reliable records of wages employers pay individuals, accuracy in recording those earnings is critical. SSA's ability to do so, however, greatly depends on employers and employees correctly reporting names and SSNs. As such, SSA provides employers information and services to help them with this responsibility.

SSA utilizes the following tools:

- (1) Telephone, fax, and walk-ins, and
- (2) Automated employee verification programs, such as the Employee Verification System (EVS), the Social Security Number Verification System (SSNVS), and the Basic Pilot.

Telephone, Fax, and Walk-ins

Employers can verify up to five SSNs at no cost by calling SSA's toll-free number for employers (1-800-772-6270). Employers may also use this number to get answers to any questions they may have about EVS or to request assistance.

Employers also have the option to fax a paper listing to the local Social Security office to verify up to 50 names and SSNs.

Employees may also visit a local field office and request a copy of their Numident print-out, a document containing all the verified information necessary to obtain employment.

While we have not conducted a full audit in this area to determine the effectiveness of telephone, fax, and walk-in verifications, current policies and procedures, if utilized, should help employers verify SSNs of employees.

Employee Verification Programs

EVS and SSNVS are SSA's two primary automated verification programs made available to employers to verify a large quantity of employees' names and SSNs. The employers can also provide optional fields, such as an employee's date of birth and gender for additional verification of identity. Participation in EVS and SSNVS is voluntary, and both services are available to employers to ensure information related to their new and existing employees is valid before the

employer submits their Forms W-2 to SSA. Employers must register to gain access to these programs.

EVS

Employers may verify requests of more than 50 names and SSNs on paper or any number of requests can be submitted on magnetic media (tape, cartridge, or diskette). To verify employee records through the registered user process, employers must submit three required elements: employee's SSN, last name, and first name. Employers can also provide optional data such as date of birth and gender. Through EVS, SSA confirms whether the name, SSN, date of birth, and gender of an employee match SSA's records. As of January 2004, SSA also began to disclose whether SSA's records indicate that the wage earner is deceased.

We have conducted audits of this program in the past and found that it was not frequently used by employers. While use of EVS has increased in the years since our work was done, and SSA made improvements based on our recommendations, emphasis and resources eventually became more focused on SSNVS.

SSNVS

To further increase the ease and convenience of verifying employee SSNs, SSA developed SSNVS. SSNVS, which was implemented nationwide in June 2005, is an on-line service that enables employers to verify whether employees' names and SSNs match the information in SSA's records. Employers can either verify up to 10 names and SSNs (per screen) on-line and receive immediate results or upload batch files of up to 250,000 names and SSNs, and usually receive results the next Government business day. SSA reported that it processed over 25.7 million verifications for over 12,000 employers in 2005.

Basic Pilot

The Basic Pilot is a joint program between SSA and DHS, whereby employers verify the employment eligibility of newly-hired employees. This voluntary program helps employers determine whether an individual is eligible to work in the United States. The President signed the Basic Pilot Program Extension and Expansion Act of 2003 (Pub. L. No. 108-156) into law on December 3, 2003. This law extended the operation of the Basic Pilot for an additional 5 years (to a total of 11 years) and expanded the operation to all 50 States, not later than December 1, 2004.

The Basic Pilot system first checks the information entered by the employer against SSA's database to verify the name, SSN, and DoB of all newly-hired employees, regardless of citizenship. When the Numident shows the U.S. as the place of birth for the newly-hired employee or a code indicating the number holder is a U.S. citizen, the Basic Pilot automated system confirms employment eligibility. If the Basic Pilot system cannot confirm employment eligibility based on the information in SSA's database or if an Alien Registration Number or I-94 Number was entered, the Basic Pilot system automatically checks the data against DHS' database.

If the Basic Pilot finds that the employees name, SSN, and/or date of birth do not match SSA's records, or that an employee who represented himself to be a citizen is not a citizen, the employer will receive an "SSA Tentative Non-Confirmation." If the Basic Pilot finds that the employee has presented a non-work SSN for work purposes, the employer will receive a "DHS

Tentative Confirmation." In either case, the employer asks the employee whether he/she wishes to contest the tentative non-confirmation. If contested, the employee must contact SSA or DHS within 8 Government working days of the notification. After the employee contacts SSA or DHS to correct the record, the employer resubmits the query through the Basic Pilot system. If the system still does not confirm employment eligibility after the employer resubmits the query, the employer may terminate the new-hire.

While the Basic Pilot has been highly effective on a limited basis, there are concerns about mandating its use for all employers.

We would also point out that while Basic Pilot provides verification of work authorization as well as name, SSN, and date of birth, it is available only for new hires, not existing employees. Meanwhile, while SSNVS and EVS are available for existing employees, they do not provide work authorization verification. At this time, no existing system offers a fully comprehensive approach to verifying all relevant information for both new and existing employees.

Potential Mandatory Verification Service

To date, the OIG has not conducted any specific audit work to determine the impact of a mandatory verification program for all U.S. employers, but we recognize that such a program has been supported in several immigration reform bills, including, Representative Sensenbrenner's "Border and Immigration Enforcement Act of 2005," and that there are potential benefits to a mandatory verification program.

In previous audit reports we have recommended that chronic problem employers should be required to participate in a verification program, such as the Basic Pilot. We made this recommendation to SSA for the purpose of addressing employers who frequently and egregiously report wages for employees with name and SSN discrepancies. In the absence of effective IRS penalties and DHS workplace enforcement, we believe requiring chronic problem employers to use the Basic Pilot could be the best method to address ESF growth.

However, we are concerned that implementation of a mandatory verification program for all employers is seen as an instant solution for SSA's erroneous wage reporting problem, and/or more broadly, for unauthorized work or illegal immigration issues in the United States. There are numerous implications of requiring employers to use such a service, including the impact on labor availability for employers who rely on the unauthorized noncitizen workforce. The GAO has identified several challenges to an employment verification program, including costs, work load implications, education, identity fraud, and increase for the production of counterfeit documents.

Along with GAO, we would express similar concerns about various challenges in light of our own prior audit and investigative work. In particular, prior OIG audit work involving modified programs has suggested that systems capabilities would have to be significantly expanded and an increased workload in the field offices and teleservice centers would result from traffic/calls attempting to resolve any initial "non-verifications" for employees.

Another of our primary concerns is Identity fraud. In order to avoid "no-match" results in a mandatory verification environment, unauthorized workers could make greater attempts to steal valid names and SSNs that match, especially, considering that valid name/SSN matches are widely available on the internet and public documents.

Commercial websites, such as those administered by Choicepoint and LexisNexis, provide SSNs and other personal information. Furthermore, websites designed for genealogy searches may sometimes link to documents containing SSNs. SSA death information is also readily available, and in fact, may be purchased by private parties.

To combat this issue, our Office of Investigations (OI) regularly reviews websites such as eBay for Social Security cards being sold, as well as search engines like Google and Yahoo for offers to obtain Social Security cards and numbers. Each search engine provides approximately 35-40 vendors per inquiry. OI reviews each vendor to determine if the advertisement constitutes fraudulent behavior, and undertakes criminal investigations as appropriate.

A related concern is the production of counterfeit documents. Our Office of Investigations (OI) has suggested that if a mandatory verification program makes it more difficult to obtain work with non-work SSNs, criminal enterprises may turn to counterfeiting Social Security cards rather than risk discovery during a more rigorous application process. In addition, improvements in technology are facilitating the manufacture of more deceptive documents, and production has become cheaper and easier. Not only do counterfeit documents weaken the integrity of the Social Security number - they also pose a real threat to Homeland Security. In an attempt to address both of these concerns, our OI has participated in collaborative efforts with DHS and other law enforcement entities on task forces and joint investigations targeting these counterfeit document rings.

One example of this cooperation is Operation Card Shark, a continuing effort to dismantle numerous such rings operating in the heart of our nation's capital. In August 2005, our agents participated in a major raid on five separate locations in the District of Columbia, seizing documents and manufacturing equipment, and making 16 arrests. Since May 2002, this operation has identified several document vending organizations and has dismantled three of them, apprehending 118 aliens in the process. SSA OIG has been involved in similar operations around the country, and the issue of counterfeit document rings remains a high investigative priority as we support SSA in its efforts to maintain the integrity of the Social Security number.

We are currently undertaking an examination of three separate aspects of verification programs, which may provide valuable information to Congress in determining whether to require that all employers use an employee verification service. These reviews will address:

- The accuracy of SSA information used to verify an employee's SSN, name, date of birth, citizenship status and, if applicable, date of death. The accuracy of these data elements is essential in ensuring that employees are not improperly denied employment simply because SSA records are incorrect or not up-to-date.
- Employer satisfaction with current verification services-SSNVS and the Basic Pilot.
- Management controls over SSNVS to ensure that employers are properly using the verification service.

Conclusion

Since the inception of this office in 1995, the issue of erroneous wage reports held in SSA's ESF was of great concern. More than a decade later, the ESF remains one of SSA's greatest challenges. While SSA has taken steps to address the issue through various tools, such as employee verification programs, the issue remains largely unresolved. My office is particularly

concerned about this issue not only because it affects SSA, but also because on a larger scale, it impacts Homeland Security. We continue to work toward a solution, we appreciate Congress' interest and concern, and we stand ready as always to assist you and SSA by providing accurate and meaningful audit and investigative work. Thank you, and I would be happy to answer any questions you may have.