Audit Report

DEPARTMENT OF DEFENSE USE OF PSEUDO SOCIAL SECURITY NUMBERS

Report No. 99-033

November 12, 1998

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Acronyms

DCPS
Defense Civilian Pay System
DCPDS
Defense Civilian Personnel Data System
DFAS
Defense Finance and Accounting Service
DoDDS
Department of Defense Dependents Schools
DoDEA
Department of Defense Education Activity
SSN
Social Security Number
MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DEPUTY ASSISTANT SECRETARY OF DEFENSE (CIVILIAN PERSONNEL POLICY)
DIRECTOR, DEPARTMENT OF DEFENSE EDUCATION ACTIVITY


We are providing this report for review and comment. This audit was done in response to complaints to the Defense Hotline regarding DoD use of pseudo Social Security Numbers. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The recommendation to obtain documentation needed to prepare W-2Cs and the recommendation to establish specific milestones for DoD personnel offices to discontinue assigning pseudo SSNs are unresolved. Therefore, we request that the Director, Defense Finance and Accounting Service, and the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) provide comments on the recommendations by January 12, 1999.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson, at (703) 604-9582 (DSN 664-9582) (crichardson@dodig.osd.mil), or Mr. Robert E. Benefiel, Jr., at (703) 604-9515 (DSN 664-9515) (rbenefiel@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing
Department of Defense Use of Pseudo Social Security Numbers

Executive Summary

Introduction. This audit was performed in response to complaints to the Defense Hotline regarding DoD use of pseudo Social Security numbers (SSNs). We were asked to review the practice of creating pseudo SSNs for Department of Defense Dependents Schools employees. Department of Defense Dependents Schools is the overseas DoD school system for dependents of DoD employees and is part of the Department of Defense Education Activity. The Social Security Administration has not officially issued SSNs in the 800 and 900 series. Federal agencies have on occasion used SSNs in the 800 and 900 series (called pseudo SSNs), however, for internal administrative purposes. Office of Personnel Management guidance permits agencies to create a pseudo SSN only when a valid SSN is not available. The Office of Personnel Management intended pseudo SSNs for noncitizens who do not have a valid SSN and who are working primarily outside the United States. The Internal Revenue Service requires employers to use a valid SSN for each employee on all statements, including Form W-2, “Wage and Tax Statement” (W-2), that contain income tax information, and assesses employer penalties for failing to provide correct W-2 information. During 1997, DoD paid $5.3 million in wages to 3,599 DoD civilian employees using pseudo SSNs, including 3,215 Department of Defense Dependents Schools’ employees.

Audit Objectives. The audit objective was to assess DoD compliance with Federal laws and regulations covering the use of SSNs, and the effect of any noncompliant actions on the DoD financial statements. We also reviewed the adequacy of the management control program as it applied to the other stated audit objectives.

Audit Results. DoD personnel offices assigned pseudo SSNs to DoD employees who held valid SSNs, to allow the Defense Finance and Accounting Service to pay employees working in more than one position of employment. This practice is contrary to Office of Personnel Management and Internal Revenue Service guidance. DoD personnel offices used pseudo SSNs to record any second employment position held by a DoD employee in the DoD civilian personnel data system. During 1997, 3,599 pseudo SSNs were used to pay employees through the payroll system that produces Form W-2, “Wage and Tax Statement” (W-2). Defense Finance and Accounting Service payroll offices reported 1997 wages on W-2s for 1,540 pseudo SSNs, contrary to Internal Revenue Code requirements to use the actual SSN; and did not prepare Form W-2C, “Corrected Wage and Tax Statement” (W-2C), to record the valid SSN for 151 of the 1,540 pseudo SSNs erroneously reported on the 1997 W-2s. Consequently, the Social Security Administration has not credited 151 DoD civilian workers with 1997 Social Security wages earned under pseudo SSNs totaling $339,000. DoD payroll offices have used pseudo SSNs to report Social Security wages on W-2s since at least 1988. Until the Defense Finance and Accounting Service provides complete Social Security wage information to the Social Security Administration, the workers will not receive credit for their full Social Security wages. The wages paid under pseudo SSNs were not material to the DoD financial statements. For details of the audit results, see Part I. See Appendix A for details on the review of the management control program.
Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) revise DoD 7000.14-R, “DoD Financial Management Regulation,” volume 8, “Civilian Pay Policy and Procedures,” to include standard operating procedures for preparing W-2Cs. We recommend that the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) modify the Modern Defense Civilian Personnel Data System to allow it to record more than one position of employment under a single SSN, and to revise the system users’ manual to require DoD personnel offices to use the valid SSN in the system for each appointment when an employee is appointed to two or more different positions of employment. In addition, we recommend that the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) establish specific milestones for DoD personnel offices to discontinue assigning pseudo SSNs to DoD personnel that hold valid SSNs. We recommend that the Director, Defense Finance and Accounting Service, modify the Defense Civilian Pay System to allow paying employees for working in more than one position of employment under their actual SSN; to follow up with the Social Security Administration to identify all DoD W-2s recorded under pseudo SSNs in the Social Security Administration suspense file of uncredited earnings; and to submit W-2Cs to the Social Security Administration that include the correct SSN for the Social Security Administration to use in place of each DoD pseudo SSN included in the Social Security Administration suspense file for 1997 and prior years. We also recommend that the Director, Defense Finance and Accounting Service, obtain documentation from the Military Departments needed to prepare W-2Cs for each DoD pseudo SSN included in the Social Security Administration suspense file for 1997 and prior years.

Management Comments. The Under Secretary of Defense (Comptroller) concurred with the recommendation to revise the DoD Financial Management Regulation to include standard operating procedures for preparing W-2Cs. The Deputy Assistant Secretary of Defense (Civilian Personnel Policy) concurred with the recommendation to modify the Modern Defense Civilian Personnel Data System to record multiple appointments under a single SSN, and to revise the system users’ manual in conjunction with the system software changes. However, the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) nonconcurred with the draft report recommendation to request a waiver from Office of Personnel Management requirements. The Director, Defense Finance and Accounting Service, concurred with the recommendation to modify the Defense Civilian Pay System, and to follow up with the Social Security Administration to identify all DoD W-2s recorded under pseudo SSNs; and concurred in principle with the recommendation to submit W-2Cs to the Social Security Administration. The Department of Defense Education Activity had no comments on the finding or recommendations. See Part I for the complete discussion of the management comments and Part III for the complete text of the comments.

Audit Response. Management comments are generally responsive. As a result of management comments, we revised our draft report recommendation to the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) to establish specific milestones for DoD personnel offices to discontinue assigning pseudo SSNs to DoD personnel that hold valid SSNs. We added a recommendation for the Director, Defense Finance and Accounting Service, to obtain documentation needed to prepare W-2Cs. Therefore, we request the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) and the Director, Defense Finance and Accounting Service, to provide comments by January 12, 1999.
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Part I - Audit Results
Audit Background

This audit was performed in response to complaints to the Defense Hotline regarding DoD use of pseudo Social Security Numbers (SSNs). We were asked to review the practice of creating pseudo SSNs for Department of Defense Dependents Schools' (DoDDS) employees. DoDDS is the overseas DoD school system for dependents of DoD employees and reports to the Department of Defense Education Activity (DoDEA).

The primary complaint to the Defense Hotline was from a military spouse that quit two part-time positions with DoDDS in Germany to accompany her husband to his next military duty assignment in Texas. The spouse applied for unemployment compensation but was unable to receive her full entitlement of Texas unemployment benefits because DoD did not supply records on her earnings under a pseudo SSN used for one of the part-time positions. The spouse verified with Social Security Administration, however, that earnings under the pseudo SSN were correctly credited to her Social Security account.

The Defense Hotline referred the spouse's complaint to the Inspector General, United States Army Europe and Seventh Army. As a result of the ensuing investigation, the payroll office sent a letter to the Texas Workforce Commission to report the spouse's earnings under the pseudo SSN. The Hotline case is now closed.

See Appendix B for a discussion on additional audit background, including the Federal laws and regulations covering the use of SSNs.

Audit Objectives

The audit objective was to assess DoD compliance with Federal laws and regulations covering the use of SSNs, and the effect of any noncompliant actions on the DoD financial statements. We also reviewed the adequacy of the management control program as it applied to the other stated audit objectives. Appendix A discusses the audit scope and methodology, review of the management control program, and prior coverage related to the audit objectives. See Appendix C for a discussion of actions Defense Finance and Accounting Service (DFAS) plans to take to correct pseudo SSNs that DoD used to report Thrift Savings Plan contributions.
Assignment and Use of Pseudo Social Security Numbers

DoD personnel offices assigned pseudo SSNs to DoD employees that held valid SSNs, to allow DFAS to pay employees working in more than one position of employment. This practice is contrary to Office of Personnel Management and Internal Revenue Service guidance. Because DoD civilian personnel data and payroll systems are incapable of recording more than one position of employment under a single SSN, DoD personnel offices used pseudo SSNs to record any second employment position held by a DoD employee. During 1997, 3,599 pseudo SSNs were used to pay employees through the payroll system which produces Form W-2, “Wage and Tax Statement” (W-2). DFAS payroll offices:

- reported 1997 wages on W-2s for 1,540 pseudo SSNs, contrary to Internal Revenue Code requirements to use the actual SSN; and
- did not prepare Form W-2C, “Corrected Wage and Tax Statement” (W-2Cs), to record the valid SSN for 151 of the 1,540 pseudo SSNs erroneously reported on the 1997 W-2s.

As a result, the Social Security Administration has not credited the 151 DoD civilian workers with 1997 Social Security wages totaling $339,000 that the workers earned under pseudo SSNs. DoD payroll offices have used pseudo SSNs to report Social Security wages on W-2s since at least 1988. Until DFAS provides complete Social Security wage information to the Social Security Administration, the workers will not receive credit for their full Social Security wages. The wages paid under pseudo SSNs were not material to the DoD financial statements.

Federal SSN Requirements

When an employee is appointed to two or more different positions of employment, the Office of Personnel Management requires personnel offices at Federal agencies to use the valid SSN for each appointment. The Office of Personnel Management permits Federal agency personnel offices to assign a pseudo SSN when a valid SSN is not available. The Internal Revenue Service requires employers to use a valid SSN for each employee on all statements (such as W-2s) that contain income tax information. The Internal Revenue Code establishes employer penalties for failing to provide employees with correct payee statements (such as a W-2). The employer penalty is $50 for each incorrect payee statement provided. See Appendix B for a discussion on the Federal laws and regulations covering the use of SSNs.
Assignment and Use of Pseudo Social Security Numbers

Assignment of Pseudo SSNs

DoD personnel offices' assignment of pseudo SSNs accommodates the limitations of the Defense Civilian Personnel Data System (DCPDS) and the Defense Civilian Pay System (DCPS), both designed to record only one position of employment under a single SSN. Both the DCPDS and DCPS systems require pseudo SSNs to record any second employment position held by a DoD employee. The systems' limitations had a significant impact on DoDEA since it had the largest number of employees holding more than one position of employment. DoDEA used the pseudo SSN to record each additional appointment in DCPDS.

At least 73 personnel offices in DoD have assigned pseudo SSNs. During 1997, DoD paid $5.3 million in wages to 3,599 DoD civilian personnel using pseudo SSNs. Of the 3,599 personnel, DoDEA assigned 3,215 pseudo SSNs (89 percent) to DoDDS personnel. We focused our audit work on DoDEA because of the Defense Hotline complaint and the proliferation of pseudo SSNs assigned by DoDEA. DoDEA is required to use the same DoD personnel and payroll systems used by other DoD agencies. However, the conversion of DoDEA payroll processing from the Military Department payroll systems to the DCPS throughout most of 1997 made it impractical to conduct sampling of the Military Departments' automated payroll data. See Appendix A for a discussion on the audit scope and methodology.

The DoDEA personnel office assigned pseudo SSNs based upon Standard Form 52, "Request for Personnel Action" (SF 52), that DoDDS' superintendents and school principals submitted for multiple appointments of school personnel. The multiple appointments provided for temporary appointments of teachers to summer recess positions or the appointment of other workers to an additional part-time position. The additional appointments involved differing rates of pay for each of the positions. Appropriately, each DoDEA personnel action request (SF 52) and resulting Standard Form 50, "Notification of Personnel Action," for an additional appointment showed the appointee's valid SSN assigned by the Social Security Administration.

DoDEA's use of pseudo SSNs did not conform to Office of Personnel Management guidance requiring the use of valid SSNs. However, DoDEA conformance to Office of Personnel Management guidance would have jeopardized its ability to pay employees who held multiple appointments. The Office of Personnel Management guidance requires Federal personnel offices to use the valid SSN for each appointment when an employee is appointed to two or more different positions, and permits agency personnel offices to assign a pseudo SSN only when a valid SSN is not available.

Each of the Military Departments developed guidance on the assignment of pseudo SSNs. DoDEA cited Army guidance for the Army automated personnel data system, a part of DCPDS, in support of its use of pseudo SSNs. The guidance, contained in the Army Civilian Personnel System Users' Manual, Version 3.0, February 1, 1994, recognizes that DCPDS is capable of recording only one position of employment under a single SSN and therefore requires construction of a pseudo SSN when an employee has two or more appointments at the same time. The Army requires personnel offices to use the actual SSN in DCPDS for one appointment and to use a unique pseudo SSN in DCPDS for
Assignment and Use of Pseudo Social Security Numbers

each of the other appointments. The Army guidance is contrary to Office of Personnel Management guidance that requires personnel offices to use the actual SSN for each appointment when an employee is appointed to two or more different positions of employment. Officials in the Office of the Assistant Secretary of the Army (Manpower and Reserve Affairs) advised us that the Army did not coordinate its guidance with the Office of Personnel Management.


Defense Civilian Personnel Data System. DCPDS program management officials confirmed that DCPDS was designed to record only one position of employment under a single SSN. As a result, DoD personnel offices, including the DoDEA personnel office, created pseudo SSNs for DCPDS to record any second employment position held by a DoD employee.

DoD plans to replace DCPDS by March 2000 with a system informally called the Modern DCPDS. According to program management officials in the Office of the Deputy Assistant Secretary of Defense (Civilian Personnel Policy), DoD has not established a requirement for the Modern DCPDS to be capable of recording more than one position of employment under a single SSN. As a result, the Modern DCPDS, like its predecessor DCPDS, will perpetuate the use of pseudo SSNs.

DoD plans to provide DoD personnel offices with a users’ manual to operate the Modern DCPDS. The Army, Navy, and Air Force users’ manuals for the predecessor system will become obsolete as their personnel offices convert to the Modern DCPDS.

Defense Civilian Pay System. Pseudo SSNs entered DCPS through automatic computer interfaces with DCPDS and through manual intervention at DFAS payroll offices. DCPS also is designed to pay for work in only one position of employment under a single SSN. Until DoD appropriately modifies DCPDS, payroll offices will continue to use pseudo SSNs to pay DoD civilian employees.

Submitting W-2s and W-2Cs

DFAS payroll offices at the DFAS Charleston, South Carolina, and Pensacola, Florida, Operating Locations, and the DFAS Denver, Colorado, Center operate DCPS. Each payroll office produces W-2s based on DCPS payroll information, including information recorded under pseudo SSNs, and sends W-2 information directly to the Social Security Administration. Payroll offices prepare a W-2C
when data reported on the W-2 is incorrect. When a W-2 is prepared reflecting pseudo SSN activity, a W-2C is prepared that shows both the pseudo SSN and the correct SSN for the Social Security Administration to use in place of the pseudo SSN.

During 1997, payroll processing for DoDDS converted from Military Departments’ payroll offices to the DCPS payroll office at the DFAS Charleston Operating Location (DFAS Charleston).

1997 W-2s. As part of the planning for the DoDDS conversion from Army, Navy, and Air Force payroll systems to DCPS, DFAS attempted to modify DCPS to show the actual SSN on W-2s that reported wages paid under pseudo SSNs. Unfortunately, the DCPS modification did not result in the desired reporting of valid SSNs for 1,540 of the 3,599 persons paid under pseudo SSNs.

DoD Civilian Employees Paid Under Pseudo SSNs in 1997

<table>
<thead>
<tr>
<th>DFAS Payroll Office</th>
<th>Employees Reported on 1997 W-2s</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Under Actual SSN</td>
</tr>
<tr>
<td>Charleston Operating Location</td>
<td>1,715</td>
</tr>
<tr>
<td>Denver Center</td>
<td>55</td>
</tr>
<tr>
<td>Pensacola Operating Location</td>
<td>289</td>
</tr>
<tr>
<td>Total</td>
<td>2,059</td>
</tr>
</tbody>
</table>

Payroll offices at DFAS Denver Center and DFAS Pensacola Operating Location generally implemented the DCPS modification effectively. DFAS Denver and Pensacola successfully included valid SSNs on 344 of the 359 W-2s that reported wages paid under pseudo SSNs. However, DFAS Charleston was unable to report the valid SSN on 1,525 of its 3,240 W-2s that reported wages paid under pseudo SSNs.

1997 W-2Cs. During the audit, DFAS Charleston prepared W-2Cs to correct 1,374 of the 1,525 W-2s that it reported under pseudo SSNs. As of April 30, 1998, W-2Cs to correct the remaining 151 W-2s (with $339,000 in 1997 Social Security wages) still needed to be prepared. DoD also needs to revise DoD 7000.14-R, “DoD Financial Management Regulation,” to establish standard operating procedures for preparing W-2Cs.

Accessibility of Pre-1997 W-2Cs in DoD. Between November 1988 and May 1998, payroll offices at 349 Army, Navy, Air Force, and Defense agency sites converted to DCPS. The former Army and Air Force payroll offices used pseudo SSNs to pay DoDDS’ civilian employees for work in any second employment position held during the year. The former Navy payroll offices did not report wages under pseudo SSNs.
Assignment and Use of Pseudo Social Security Numbers

The Air Force payroll offices generally showed the actual SSN on W-2s that reported wages paid under pseudo SSNs. Army payroll offices showed only the pseudo SSN on W-2s that reported wages paid under pseudo SSNs. The 266th Finance Command, U. S. Army Europe (the 266th), for example, used pseudo SSNs to report wages on 228 W-2s submitted for 1996. The 266th told us that W-2Cs were prepared to correct each pseudo SSN reported on a 1996 W-2, but were unable to provide the audit team with copies of W-2Cs prepared to correct W-2s submitted before 1996.

The Army has no central records, either automated or manual, on the W-2Cs that its former payroll offices have prepared, and copies of W-2Cs are no longer readily available at former Army payroll offices such as the 266th. Most of the former payroll offices are now closed and the payroll records are stored at locations dispersed around the world. The only remaining accessible source of W-2C information is the Social Security Administration.

Availability of W-2 and W-2C Data at the Social Security Administration.

The Social Security Administration has centralized data on W-2s and W-2Cs, and pseudo SSNs reported on W-2s submitted by DoD's former payroll offices, including the Army, are in a Social Security Administration suspense file of uncredited earnings. W-2 data remains in the Social Security Administration suspense file until Social Security Administration receives the correct SSN, usually on a W-2C, to use in place of the invalid SSN incorrectly reported on the original W-2. The General Accounting Office reported that between 1937 and June 1992, the Social Security Administration recorded 183 million W-2s totaling $165.2 billion in its suspense file of uncredited earnings.

On March 13, 1998, we requested that DFAS authorize the Social Security Administration to release DoD W-2 and W-2C data to support this audit. We also requested Social Security Administration data on DoD W-2 wages reported under pseudo SSNs that remain in the Social Security Administration suspense file of uncredited earnings. DFAS approved the request on May 13, 1998.

Identifying DoD W-2s With Pseudo SSNs at Social Security Administration

DFAS should follow up with the Social Security Administration to identify all DoD W-2s recorded under pseudo SSNs in the Social Security Administration suspense file of uncredited earnings for 1997 and prior years. DFAS should send W-2Cs to the Social Security Administration that include the correct SSN for the Social Security Administration to use in place of each DoD pseudo SSN included in the Social Security Administration suspense file.

Assignment and Use of Pseudo Social Security Numbers

Internal Revenue Service officials advised that as an employer and taxpayer, DoD may request that the Social Security Administration send DoD W-2 data, under Title 26, United States Code, Section 6103 (e), to verify W-2 information that it had reported was correct. The Social Security Administration can release DoD W-2 data to the DoD agency with delegated authority over DoD W-2 data.

The Deputy Secretary of Defense delegated authority over DoD W-2s to the Director, DFAS, through DoD Directive 5118.5, “Defense Finance and Accounting Service,” November 26, 1990. The Directive states that the Director, DFAS, has delegated authority to act as an agent and to make all determinations and certifications required under the Internal Revenue Code of 1954, as amended, and the Social Security Act, as amended, for employees paid by DFAS. DFAS now pays all DoD employees, except for one agency, through DCPS.

Until DFAS identifies all uncorrected DoD W-2s sent to the Social Security Administration under pseudo SSNs and submits W-2Cs with the correct SSNs, the Social Security Administration will be unable to provide these DoD employees with credit for the wages earned under pseudo SSNs. Full wage credit is necessary if the workers are to receive full entitlement of Social Security retirement and disability benefits, and eligible family members are to receive full entitlement of survivors’ benefits.

Recommendations, Management Comments, and Audit Response

Revised Recommendation. As a result of management comments, we revised draft Recommendation 2.c. and added Recommendation 3.d. to specify the actions needed to improve management controls.


Management Comments. The Under Secretary of Defense (Comptroller) concurred, stating that DoD will revise the DoD Financial Management Regulation to include standard operating procedures for preparing W-2Cs. See Part III for the complete text of management comments.

2. We recommend that the Deputy Assistant Secretary of Defense (Civilian Personnel Policy):

   a. Modify the “Modern Defense Civilian Personnel Data System,” in coordination with the Director, Defense Finance and Accounting Service, to allow it to record more than one position of employment under a single SSN; and to make the modification effort a high Civilian Personnel Management Service priority;
b. Revise the users' manual for the “Modern Defense Civilian Personnel Data System” to require DoD personnel offices to use the valid SSN in the system for each appointment when an employee is appointed to two or more different positions of employment; and

c. Establish specific milestones for DoD personnel offices to discontinue assigning pseudo SSNs to DoD personnel that hold valid SSNs.

Management Comments. The Deputy Assistant Secretary of Defense (Civilian Personnel Policy) concurred with draft Recommendations 2.a. and 2.b., stating that DoD would modify the “Modern Defense Civilian Personnel Data System” and its users' manual. Management nonconcurred with draft Recommendation 2.c., indicating that DoD does not need to request a waiver from Office of Personnel Management requirements. Management comments state that DoD uses the valid SSN for all documentation sent to the Office of Personnel Management, and therefore DoD is in compliance with Office of Personnel Management requirements. Further, DoD does not require a waiver from the Office of Personnel Management to use pseudo SSNs in the Defense Civilian Personnel Data System.

The Director for Finance, Defense Finance and Accounting Service, responded for the Director, Defense Finance and Accounting Service, and agreed with draft Recommendation 2.a., stating that Defense Civilian Pay System modifications are dependent upon changes to the Defense Civilian Personnel Data System. See Part III for the complete text of management comments.

Audit Response. Management comments on draft Recommendation 2.c. are not fully responsive. We agree that DoD is using valid SSNs on personnel records sent to the Office of Personnel Management. However, DoD personnel offices' practice of assigning pseudo SSNs to DoD employees that hold valid SSNs is contrary to Office of Personnel Management guidance. The Office of Personnel Management guidance states that personnel offices may not use a pseudo SSN when an employee has a valid SSN. The guidance only permits agencies to create a pseudo SSN when a valid SSN is not available.

Strict DoD compliance with Office of Personnel Management guidance would jeopardize DoD's ability to pay employees that hold multiple appointments. DoD's personnel and payroll systems were designed to record only one position of employment under a single SSN. DoD personnel offices' assignment of pseudo SSNs overrides the current limitations of DoD's personnel and payroll systems. DoD will need to continue assigning pseudo SSNs until those systems are changed to allow payments for multiple positions under a single SSN.

As a result of management comments, we redesigned Recommendation 2.c. to establish specific milestones for corrective action the personnel offices need to take to ensure Office of Personnel Management guidance is followed, and to establish management controls over a practice that could potentially lead to financial abuse.
Assignment and Use of Pseudo Social Security Numbers

3. We recommend that the Director, Defense Finance and Accounting Service:

   a. Modify the Defense Civilian Pay System, in coordination with the Deputy Assistant Secretary of Defense (Civilian Personnel Policy), to allow it to pay employees for work under more than one position of employment under a single SSN;

   b. Follow up with the Social Security Administration to identify all DoD W-2s recorded under pseudo SSNs in the Social Security Administration suspense file of uncredited earnings;

   c. Submit W-2Cs to the Social Security Administration that include the correct SSN for the Social Security Administration to use in place of each DoD pseudo SSN included in the Social Security Administration suspense file for 1997 and prior years; and

   d. Obtain the documentation needed to prepare W-2Cs for each DoD pseudo SSN included in the Social Security Administration suspense file for 1997 and prior years from the Assistant Secretaries (Financial Management and Comptroller) of the Military Departments and the Deputy Assistant Secretary of Defense (Civilian Personnel Policy).

Management Comments. The Director for Finance, Defense Finance and Accounting Service, concurred with draft Recommendation 3.a., and 3.b., and concurred in principle with Recommendation 3.c. The Director stated that Defense Civilian Pay System modifications are dependent upon changes to the Defense Civilian Personnel Data System. For draft Recommendation 3.b., he stated that the Defense Finance and Accounting Service will contact the Social Security Administration to identify DoD W-2s recorded under pseudo SSNs in the Social Security Administration suspense file. For Recommendation 3.c., he stated that the Defense Finance and Accounting Service should be able to issue W-2Cs for DoD employees during the time they were paid by the Defense Civilian Pay System. The Director indicated that the Defense Finance and Accounting Service may not be able to issue W-2Cs for DoD employees during the time they were paid by systems that preceded the Defense Civilian Pay System because documentation may not be available. The Department of Defense Education Activity had no comments regarding the finding or recommendations. See Part III for the complete text of management comments.

Audit Response. Defense Finance and Accounting Service comments were generally responsive. However, in this final report we added Recommendation 3.d. to assure that the Defense Finance and Accounting Service receives the documentation that it needs to correct each DoD pseudo SSN included in the Social Security Administration suspense file.
Management Comments Requested

We request that the Deputy Assistant Secretary of Defense (Civilian Personnel Policy) provide additional comments regarding revised Recommendation 2.c. We request that the Director, Defense Finance and Accounting Service, provide additional comments regarding new Recommendation 3.d.
Part II - Additional Information
Appendix A. Audit Process

Scope and Methodology

We contacted Social Security Administration to identify SSNs that Social Security Administration has not issued and that are not valid for use as SSNs (pseudo SSNs). We reviewed Office of Personnel Management guidance on the appropriate circumstances for assigning pseudo SSNs and on the method for constructing pseudo SSNs. In addition, we examined Internal Revenue Code requirements regarding the use of SSNs on W-2s, and related DoD requirements involving employee pay records. We interviewed officials from the Social Security Administration, Office of Personnel Management, Internal Revenue Service, Office of the Assistant Secretary of the Army (Manpower and Reserve Affairs), Office of the Deputy Assistant Secretary of Defense (Civilian Personnel Policy), Defense Commissary Agency, DFAS headquarters, DFAS Denver Center, DFAS Pensacola and Charleston Operating Locations, Department of Defense Education Activity, Air Force Personnel Center, and former Army, Navy, and Air Force payroll offices.

We attempted to identify organizations, other than DoDDS, that used pseudo SSNs from 1996 DoD payroll data but DFAS could not provide automated 1996 DCPS data that we requested. We also attempted to obtain automated payroll data for the same purpose from seven of the Army, Navy, and Air Force civilian payroll offices that closed during 1997. The two Navy offices did not use pseudo SSNs and the five Army and Air Force offices were unable to supply automated payroll data. However, a listing of 1996 pseudo SSNs was supplied by the Army civilian payroll office in Heidelberg, Germany, and the Air Force civilian payroll office in Ramstein, Germany. The listings showed that DoDDS accounted for 216 (95 percent) of the 228 DoD employees paid by the Army payroll office and 378 (90 percent) of the 418 DoD employees paid by the Air Force payroll office during 1996 using pseudo SSNs. Further, 1997 DCPS' data showed that DoDDS accounted for 3,215 (89 percent) of the 3,599 DoD employees paid during 1997 using pseudo SSNs. DoD paid $5.3 million in wages to the 3,599 DoD employees paid under pseudo SSNs during 1997.

Because of the Defense Hotline complaint and the proliferation of pseudo SSNs at DoDDS, we reviewed the DoDEA process for assigning pseudo SSNs to DoDDS' employees. The scope of the audit work at DoDDS was limited because we were unable to completely and reliably identify the universe of DoDDS' employment positions in effect for 1996 under pseudo SSNs. The limitation occurred because the DCPDS did not archive computer-processed data on all DoDDS' appointments terminated between quarters. DoDEA did provide 1996 data that was still available for DoDDS but we were unable to extract reliable employment information from the DCPDS' data.
Appendix A. Audit Process

During the audit survey, we reviewed pseudo SSNs supporting personnel offices assigned to Defense Commissary Agency employees. We identified the universe of Defense Commissary Agency personnel employed each month during 1997 under pseudo SSNs (about 15 employees) from an automated agency personnel database. We did not conduct detailed audit work for prior years at the Defense Commissary Agency because it employed a minimal number of personnel under pseudo SSNs and its supporting personnel offices complied with Office of Personnel Management guidance for assigning pseudo SSNs. Defense Commissary Agency payroll processing converted from the Defense Business Management System to DCPS in May 1998.

We focused our payroll and W-2 audit work on 1997 because payroll processing for DoDDS was converted during 1997 from Military Departments’ payroll offices to the DCPS payroll office at the DFAS Charleston Operating Location. We compared 1997 DFAS payroll data for 3,599 DoD employees paid under pseudo SSNs with 1997 DoD W-2s to determine whether 1997 W-2s were prepared for employees paid under pseudo SSNs. To determine whether DFAS payroll offices corrected W-2s that erroneously showed pseudo SSNs, we reviewed 1997 W-2Cs prepared by the DFAS Charleston Operating Location to correct the 1,525 W-2s that it sent to the Social Security Administration showing pseudo SSNs. Delays by the Social Security Administration and DFAS prevented us from identifying the universe of 1997 W-2s and W-2Cs that the Social Security Administration had actually received from DoD for pseudo SSNs, or the number of DoD W-2s with pseudo SSNs that remained uncorrected at the Social Security Administration from years prior to 1997.

We were unable to conduct automated matches to detect duplicate payments or to determine whether 1996 wages were only paid to workers that were appointed to a DoDDS’ position during 1996. We could not conduct these audit tests because we were unable to obtain automated DoDDS’ payroll data for 1996 from DCPS or from the former Army and Air Force payroll systems that supported DoDDS. We also could not get reliable automated DoDDS’ personnel data for 1996 from the DCPDS.

Use of Computer-Processed Data. We relied on computer-processed data from DCPS to identify DoD employees paid under pseudo SSNs during 1997 and computer-processed data from the DoD Wage and Tax Statement System to identify 1997 DoD W-2s with wages reported under pseudo SSNs. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that pseudo SSNs in computer-processed payroll data agreed with pseudo SSNs in the computer-processed W-2 data. We did not find errors that would preclude use of the computer-processed W-2 data to meet the audit objectives or that would change the conclusions in the report.

We did not rely on computer-processed data from DCPDS because DoD systems analysts informed us that computer-processed DCPDS data was not complete since DCPDS was only capable of providing data on appointments that were active on a particular date. DCPDS was not capable of providing data on appointments that were active over a period of time such as a calendar year.
Appendix A. Audit Process

Technical Assistance. We obtained technical assistance in extracting computer-processed data from the Quantitative Methods Division of the Analysis, Planning, and Technical Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

DoD-wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Department of Defense has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objectives and goals:

Objective: Fundamentally reengineer the Department and achieve a 21st century infrastructure. Goal: Reduce costs while maintaining required military capabilities across all DoD mission areas. (DoD-6)

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following financial management functional area objectives and goals:

- **Objective:** Reengineer DoD business practices. **Goal:** Improve data standardization of finance and accounting data items. (FM-4.4)
- **Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. (FM-5.3)

General Accounting Office High Risk Area. The General Accounting Office has identified several high risk areas in the Department of Defense. This report provides coverage of the Defense Financial Management high risk area.

Audit Period and Standards. We performed this financial-related audit from September 25, 1997, through April 30, 1998. We conducted this audit in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and the Social Security Administration, Office of Personnel Management, and Internal Revenue Service. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program" dated August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of DFAS management controls over the submission of W-2 data for wages paid under pseudo SSNs. Specifically, we reviewed DFAS management
controls over compliance with Internal Revenue Code requirements for submitting W-2 data. Because we did not identify a material weakness, we did not assess DFAS management's self-evaluation applicable to those controls.

Adequacy of Management Controls. DFAS management controls over the submission of W-2 data for wages paid under pseudo SSNs were generally adequate to ensure that DFAS provided complete Social Security wage information to the Social Security Administration.

Summary of Prior Coverage

Within the last 5 years, there were no audits or other reviews directly related to our audit objectives.
Appendix B. Additional Audit Background

Social Security Laws. The Social Security Act of 1935 requires the Social Security Administration to keep records for each covered individual showing the amounts of wages paid and the periods of payment. The SSN was devised as a means to keep track of the wages paid. Each SSN consists of nine digits divided into three parts and separated by hyphens as follows: 000-00-0000. The first three-digit part is called the area number.

Social Security Administration has never officially issued the 800 and 900 series of area numbers so these area numbers are not valid for SSNs. Some Federal agencies have used SSNs in the 800 and 900 series (called pseudo SSNs) for internal administrative purposes. Social Security Administration, for example, temporarily used pseudo SSNs in the Supplemental Security Income program until actual SSNs could be located or issued for some benefit recipients. Social Security Administration has discontinued the practice of using pseudo SSNs for its Supplemental Security Income Program.

Although the SSN was originally intended only for use in the Social Security program, SSN use has increased greatly since the 1930s. Many Federal agencies and state governments now have authority to use the SSN for non-Social Security program purposes. Executive Order 9397, issued November 30, 1943, provided the Civil Service Commission, forerunner to the Office of Personnel Management, the authority to use the SSN to identify records kept on Civil Service employees. The Order requires all Federal agencies to use the SSN for employment records.

Internal Revenue Laws. Internal Revenue Service instructions for preparing the W-2 state that employers must file a W-2 for each employee from whom income, Social Security, or Medicare taxes were withheld. These taxes apply, generally, to all employees except noncitizens employed outside the United States, the Virgin Islands, and Puerto Rico. Section 6109, “Identifying numbers,” of the Internal Revenue Code (Title 26, United States Code) requires employers to use the employee SSN as the identifying number for each employee on all returns, statements, or other documents that contain tax information. Section 6722, “Failure to furnish correct payee statements,” establishes employer penalties for failure to provide their employees with correct payee statements (such as a W-2). The employer penalty is $50 for each incorrect payee statement but total penalties cannot exceed a $100,000 yearly ceiling.

Office of Personnel Management Guidance. Guidance on the appropriate circumstances for assigning pseudo SSNs is contained in the Office of Personnel Management Operating Manual, “The Guide to Processing Personnel Actions,” Update 1, March 31, 1994. Chapter 4, “Requesting and Documenting Personnel Actions,” permits agencies to create a pseudo SSN when a valid SSN is not available. Agencies may assign a pseudo SSN to employees for whom no SSN will be recorded (e.g. noncitizens working outside the United States and
not subject to U.S. income tax or social security tax laws) or for persons temporarily having no SSN (e.g. noncitizens now working in the United States and citizens who have forgotten their actual SSN).

The 1994 Office of Personnel Management guidance also tells agency personnel offices how to construct a pseudo SSN. The guidance, in effect since at least 1983, advises agency personnel offices to construct a pseudo SSN, like a actual SSN, as a 9-digit number. The lead digit is either an 8 or 9, numbers that the Social Security Administration does not use for valid SSNs. The lead digit is followed by the 4-digit personnel office identification number assigned by the Office of Personnel Management and then 4 digits assigned by the personnel office that represent the next unassigned number in the sequence. To illustrate, we have created the following fictitious pseudo SSN for an Office of Inspector General, DoD, employee.

2 4 4 5 0 0 0 1

- Lead digit, either an 8 or 9.

- 4-digit personnel office identification number assigned to the Office of Inspector General, DoD.

- Next unassigned 4-digit number in the sequence.

By following the Office of Personnel Management procedure for constructing pseudo SSNs, personnel offices at Federal agencies assure that each employee requiring a pseudo SSN is assigned a unique pseudo SSN. As of January 31, 1998, 73 of the 459 civilian personnel offices in DoD had active employment positions recorded in DCPDS under pseudo SSNs.

DoD Comptroller Guidance. DoD 7000.14-R, “DoD Financial Management Regulation,” volume 8, “Civilian Pay Policy and Procedures,” January 3, 1995, requires that employee pay records use the SSN to identify all employees paid by the DoD. When an employee is not required to have a SSN, payroll offices must use a pseudo SSN to identify the individual on employee pay records. SSNs are also reported on W-2s that DoD submits annually to the Social Security Administration. See Appendix A for a discussion on the audit scope and methodology relating to the DoD payroll and W-2 systems.
Appendix C. Other Matters of Interest

DFAS is taking action to correct 52 pseudo SSNs that DoD reported for Thrift Savings Plan contributions recorded at the National Finance Center, Department of Agriculture. DoDEA assigned 48 of the 52 pseudo SSNs.

A public accounting firm identified the 52 pseudo SSNs during an engagement for the Pension and Welfare Benefits Administration, Department of Labor. The Pension and Welfare Benefits Administration sent letters to payroll offices at DFAS centers and operating locations that identified the pseudo SSNs applicable to each payroll office. The letters requested the DFAS centers and operating locations to provide documentation to the National Finance Center, Department of Agriculture, that shows the correct SSN to use in place of each pseudo SSN.

We requested that DFAS summarize the actions taken to correct the pseudo SSNs and the actions planned to prevent the situation from recurring. In response, DFAS stated that it would provide the National Finance Center with correct SSNs by August 31, 1998. In addition, DFAS stated that it will modify DCPS to combine Thrift Savings Plan deductions made under pseudo SSNs with deductions made under the related valid SSN and report the combined amount under the valid SSN to the National Finance Center. On November 6, 1998, DFAS officials confirmed that DFAS completed the corrective actions. Therefore, no additional comments are required.
Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Director, Accounting Policy
  Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Personnel and Readiness
  Deputy Assistant Secretary of Defense (Civilian Personnel Policy)
  Assistant Secretary of Defense (Public Affairs)

Department of the Army

Assistant Secretary of the Army (Manpower and Reserve Affairs)
  Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
  Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
  Auditor General, Department of the Air Force
  Air Force Personnel Center

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Department of Defense Education Activity
Appendix D. Report Distribution

Non-Defense Federal Organizations and Individuals

Internal Revenue Service
Office of Management and Budget
Office of Personnel Management
Social Security Administration
Technical Information Center, National Security and International Affairs Division,
   General Accounting Office.

Chairman and ranking minority member of each of the following congressional
   committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
   Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice,
   Committee on Government Reform and Oversight
House Committee on National Security
Part III - Management Comments
MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Department of Defense Use of Pseudo Social Security Numbers
(Project Number SFA-8003)

This office concurs with recommendation 1 cited in subject report. Volume 8, "Civilian Pay Policy and Procedures," of the DoD Financial Management Regulation will be revised to include standard operating procedures for the preparation of forms W2-C (Statement of Corrected Income Tax Amounts).

My point of contact for this action is Ms. Deanie Ross-Singleton. She can be reached by e-mail at: deanie.ross@osd.pentagon.mil or by telephone at (703) 602-0374.
MEMORANDUM FOR DEPUTY DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Department of Defense Use of Pseudo Social Security Numbers (Project No. 8FA-8003)

This is in response to your memorandum dated July 30, 1998, requesting comments on recommendations 2.a and 3 in subject draft report. Our comments are provided in the attachment.

Mr. Emmett Forsyth is my point of contact on this issue. He can be reached at DSN 327-0079 or (703) 607-0079.

Director for Finance

Attached: As stated

cc: DFAS-DE/FN
Charleston OPLOC
Pensacola OPLOC
FSAPE
Defense Civilian Pay System (DCPS) comments on

Draft Audit Report on Department of Defense Use of Pseudo Social Security Numbers (Project No. 8FA-8003)

Recommendations for Corrective Action:

Recommendation 2. We recommend that the Deputy Assistant Secretary of Defense (Civilian Personnel Policy):

   a. Modify the "Modern Defense Civilian Personnel Data System," in coordination with the Director, Defense Finance and Accounting Service (DFAS), to allow it to record more than one position of employment under a single SSN, and make the modification effort a high Civilian Personnel Management Service (CPMS) priority.

Response:

Concur. DCPS modifications are dependent upon changes to the Defense Civilian Personnel Data System (DCPDS). According to CPMS, these changes will not be made until after the Department of Defense converts to the modernized DCPDS, they estimated the changes can not be made until mid calendar year 2000 at the earliest.

Recommendation 3. We recommend that the Director, DFAS:

   a. Modify the Defense Civilian Pay System, in coordination with the Deputy Assistant Secretary of Defense (Civilian Personnel Policy), to allow it to pay employees for work under more than one position of employment under a single SSN.

Response:

Concur. DCPS modifications are dependent upon changes to the Defense Civilian Personnel Data System (DCPDS). According to CPMS, these changes will not be made until after the Department of Defense converts to the modernized DCPDS, they estimated the changes can not be made until mid calendar year 2000 at the earliest.
b. Follow up with the Social Security Administration to identify all DoD W-2s recorded under pseudo SSNs in the Social Security Administration suspense file of uncredited earnings.

Response:
Concur. DFAS will contact the Social Security Administration to identify DoD W-2s recorded under pseudo SSNs in the Social Security Administration suspense file. Estimated completion dated is December 1, 1998.

C. Submit W-2Cs to the Social Security Administration that include the correct SSN for the Social Security Administration to use in place of each DoD pseudo SSN included in the Social Security Administration suspense file for 1997 and prior years.

Response:
Concur in principle. DFAS will review the tax information under the Pseudo Social Security Numbers received from the Social Security Administration Suspense Files. DFAS should be able to issue W-2Cs for those employees during the time they were paid by DCPS. However, documentation may not be available to issue W-2Cs for payments made under Pseudo Social Security Numbers that were made prior to the civilian pay account being converted to DCPS. We will make that determination upon receipt and review of the data from the Social Security Administration. Estimated completion date is June 30, 1999.
MEMORANDUM FOR DEPUTY DIRECTOR, FINANCE AND ACCOUNTING
DIRECTORATE, DEPARTMENT OF DEFENSE
INSPECTOR GENERAL

SUBJECT: Proposed Audit Report on Department of Defense Use of Pseudo Social Security Numbers (Project No. 8FA-8003)

This memorandum constitutes our response to the Proposed Audit Report on Department of Defense Use of Pseudo Social Security Numbers dated July 30, 1998 (Project No. 8FA-8003).

The attached document responds to the applicable recommendations.

Diane M. Disney
Deputy Assistant Secretary
(Civilian Personnel Policy)

Attachment.
As stated
Recommendations for Corrective Action

Recommendation 2. "We recommend that the Deputy Assistant Secretary of Defense (Civilian Personnel Policy):

a. Modify the "Modern Defense Civilian Personnel Data System" in coordination with the Director, Defense Finance and Accounting Service, to allow it to record more than one position of employment under a single SSN; and make the modification effort a high Civilian Personnel Management Service priority;

Response: Concur.

The current design of Oracle HR prevents us from using the multiple assignment function of the application to record multiple appointments under a single SSN. CPMS as well as other Oracle customers have raised this issue with the Oracle Corporation, most recently in May 1998. While Oracle has agreed to modify Oracle HR to add this functionality, we will be unable to do so before mid CY 2000 at the earliest. This remains a high priority for CPMS and we will continue to work this issue with DFAS.

b. Revise the users' manual for the "Modern Defense Civilian Personnel Data System" to require DoD personnel offices to use the valid SSN in the system for each appointment when an employee is appointed to two or more different positions of employment; and

Response: Concur.

The users' manual will be changed in conjunction with the software changes discussed above.

c. Request a waiver from Office of Personnel Management requirements to permit DoD personnel offices to assign pseudo SSNs until supporting DoD personnel and payroll systems can accommodate the use of a single SSN for multiple appointments.

Response: Non-concur.

The OPM guidance states "If an employee holds two or more appointments in the same agency at the same time, use the valid SSN for each appointment." When we process appointments and other personnel actions on employees with multiple position records we use the valid SSN for all actions. We use the valid SSN on these employees for all documentation and in all files sent to OPM. Therefore, we believe we are in compliance with OPM requirements. The DCPDS system architecture requires us to use a pseudo SSN as an index key within the DCPDS database to differentiate one appointment from another. This does not require a waiver. We would need to request a waiver only if we were using the pseudo SSN in documentation, CPDF or other submissions.
MEMORANDUM FOR DEPARTMENT OF DEFENSE, INSPECTOR GENERAL

ATTENTION: MR. DAVID BREWSTER

SUBJECT: Audit Report on the Department of Defense Use of Pseudo Social Security Numbers
(Project No. DFA-8003)

The purpose of this memorandum is to provide our comments on the subject draft audit report. The draft audit report’s findings or recommendations are not directed to the Department of Defense Education Activity (DoDEA), thus we are providing a negative reply.

We appreciate the efforts extended to DoDEA by your office to review the subject audit report. If you have any questions, please call me at (703) 696-9952, extension 2440.

Samuh H. Holmy
Chief, Review and Compliance Office
Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

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