

SUMMARY REPORT  
OIG TECHNICAL ASSISTANCE REVIEWS  
TO DETERMINE UNDERREPORTED STATE  
UI TAXES THROUGH DEVELOPMENT  
OF MODEL COMPUTER PROGRAMS  
IN FIVE STATE EMPLOYMENT SECURITY AGENCIES

OFFICE OF INSPECTOR GENERAL  
OFFICE OF AUDIT

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## EXECUTIVE SUMMARY

We provided technical assistance to five State Employment Security Agencies (SESA) using OIG-developed computer software to: (1) identify potential employers who may have underpaid their state Unemployment Insurance (UI) taxes due to underreporting taxable wages, and (2) identify and correct obvious social security number errors in SESA wage record files.

Each SESA review covered a complete calendar year. Special programs were also developed at two of the sites. In total, using our conventional programs we identified 3,355 employers who potentially underpaid \$6.7 million in UI taxes. An additional 9,921 employers who potentially underpaid \$4 million in UI taxes were identified using our special programs.

From approximately 28 million social security numbers on the five SESA's wage record files, our edit program identified over 400,000 errors in social security numbers. These errors can be easily corrected using the computer rather than manually correcting the records.

In our opinion, the software programs developed during these technical assistance reviews are a very good source for identifying high profile employers for field audit or in-house reviews. Furthermore, the states now have a method to correct social security number errors. This will prevent the states from having to redetermine UI claims because of errors and prevent erroneous wage information being given to other public agencies requesting wage information.

## INTRODUCTION

### Purpose of Report

This report summarizes the results of our technical assistance provided to five states to identify potentially underpaid UI taxes because of employer's underreporting taxable wages. The five states were: Georgia, North Carolina, Louisiana, New Mexico and Texas. Computer software programs were developed to analyze unemployment insurance tax and wage files. These programs were used to identify employers who had potentially underpaid unemployment insurance taxes due to underreporting taxable wages. Additional programs were developed to identify and correct obvious social security number errors in individual wage records. Individual Statements of Fact detailing the results of extensive computer analyses performed between July 1986 and June 1988 were issued to each state.

The programs used in the five states could be easily adapted to run in many other states. This information is provided to the ETA for dissemination to interested State Employment Security Agencies.

### Background

The nation's Federal-State Unemployment Insurance (UI) program was established in 1935 by the Social Security Act (42 USC 501). This program, established by Federal law but implemented through state laws, was initiated to provide cash payments to unemployed workers to assure these persons at least a significant proportion of the necessities of life while actively seeking new employment.

Unemployment compensation benefits to unemployed workers are financed by state employer taxes (and employee taxes in some states). Tax rates are established by individual state laws; however, the current minimum taxable wage base of \$7,000, against which these tax rates are applied, is set by Federal law. Many states have raised the taxable wage base above the minimum in order to maintain a solvent unemployment insurance program.

Every covered employer in each state is required to file quarterly wage reports which include total wages paid to each employee. Employers are also required to pay state UI taxes on each employee's wages up to the state's taxable wage base. Employers who underpay their taxes are subject to interest and penalties as provided by state law. States use wage history data for UI claimant monetary determinations and for employer UI tax rate computations. Wage data is also provided to other public agencies to verify applicant income eligibility for various social programs.

Each State Employment Security Agency uses a computer system to manage its unemployment insurance tax and benefit payments functions. Employer tax files are used to store unemployment tax data for each employer. Employee wage history files are used to store wage data on each employee as reported by employers.

## OBJECTIVES AND SCOPE

The objectives of this review in five states were to:

- \* test and refine automated techniques for identifying employers who have underpaid unemployment insurance (UI) taxes; and
- \* develop methods for improving the accuracy of UI wage history data.

Our review was limited to developing computer software programs to analyze unemployment insurance tax and wage files as necessary to accomplish our objectives. In cooperation with the state agencies, we also reviewed some unemployment insurance tax reports to verify the accuracy of our computer analysis and provided assistance to the state agencies on performing the computer reviews and analyzing the output. Our reviews were performed in Georgia, North Carolina, Louisiana, New Mexico, and Texas.

### Review Period

Our review period for each state varied depending on the calendar quarters of data that were available at the time of our on-site work. Our review period in each state for detection of underpayments was not necessarily the same as the review period for correction of SSN errors.

For underpayment detection, we used the four quarters for the most recently completed calendar year. A calendar year period was necessary because taxable wages are computed on a calendar year basis starting with the first quarter of each year. When requested by a

state, we expanded our review to include available quarters of the next calendar year.

Our review period for SSN error correction was the available quarters of wage records on the state's current base period wage file at the time of our review. The current base period quarters were chosen because the states were currently using those quarters for benefit monetary determinations. Detection of errors in current data would help states to avoid improper monetary determinations and potential benefit under/overpayments. Detecting SSN wage record errors in quarters prior to the current base period would be of no value to a state because such quarters were no longer used and had been purged from the base period wage file.

Our review periods were as shown below. The states are listed in the order that the field work was performed.

<u>State</u>	<u>Review Period For:</u>	
	<u>Employer Tax Underpayments</u>	<u>Social Security Number Error Correction</u>
Georgia	1/1/85 - 12/31/85	7/1/85 - 9/30/86
North Carolina	1/1/86 - 12/31/86	1/1/86 - 12/31/86
Louisiana	1/1/86 - 9/30/87	7/1/86 - 9/30/87
New Mexico	1/1/86 - 12/31/87	10/1/86 - 12/31/87
Texas	1/1/87 - 3/31/88	10/1/86 - 12/31/87

## METHODOLOGY FOR DETERMINING UNDERPAID TAXES

During the five reviews, we refined our computer programs substantially. These refinements helped us to better accomplish our objectives as we gained additional experience from each subsequent review. The following pages contain a general description of the methodology we used in Texas, the last state in our review. These concepts could be applied in various programming languages by other states.

To accomplish our objectives, we used computer programs written in Easytrieve Plus to access Employer Tax and Employee Wage History files. Easytrieve Plus is a powerful, high-level, easy-to-use programming language. Most state agencies with IBM computer systems have this language available.

In each state, we used the Employer Tax File to obtain the net amount of total and taxable wages reported by each contributory employer during the review period. Depending on state law, we linked together wages paid by predecessor and successor employers. State laws and Agency procedures vary considerably concerning the transfer of wage credits from predecessor to successor employers. Therefore, extensive programming modifications were necessary in each state to properly compute taxable wages.

Employers are required to file quarterly wage reports showing each employee's social security number and amount of total wages. This information is entered by each state into its wage history file. From the Employee Wage History File we extracted all individual wage records for the review period. Depending on state law, we linked together wages paid to the same SSN by predecessor and successor employers.

Errors in social security numbers are frequently made by employers when preparing wage reports, or by Agency personnel when entering wage data into the computer system. Our computation of taxable wages was based on each social security number for each employer on the wage file. Therefore, the accuracy of social security numbers on the Agency wage history file was essential to our calculation of an individual's taxable wages and an employer's potential tax liability.

To reduce the potential for targeting employers who in fact did not underpay their UI tax, it was necessary for us to consider error types which only signaled underpayment and could be corrected.

#### Considerations in Computing Taxable Wages

To ensure that we identified only those employers that had a high probability of underpaying taxes we had to consider that:

- + Errors occur in data entry of social security numbers that could erroneously overstate our computation of taxable wages by social security number. If an individual's wages for different quarters are under two social security numbers (one correct; one wrong), we would erroneously compute taxable wages for two individuals and thus overstate the employer's taxable wages.
  
- + Duplicate entry of wage items could overstate our computation of taxable wages by social security number. If an individual's wages were entered twice, we would compute taxable wages on the sum of both entries, up to the amount of the taxable wage base.

- + Some employers had already paid taxes on taxable wages for one or more employees for their business in another state. Our considering these employees' wages as taxable wages would overstate the employers' taxable wages.

We identified and compensated for obvious errors in social security numbers to minimize overstating potentially underpaid taxes. The methodology used to identify social security number errors is discussed later.

We also deleted obvious duplicate wage items. We considered a wage item as duplicate if, for the same quarter, two wage items had the same employer number, social security number, surname, first initial, and quarterly wage amount.

Our computer programs also partially compensated for distortions that would otherwise occur from computing taxes on out-of-state wages. An Agency's wage history file does not identify employees who have worked for the same employer in another state during the year, nor does it indicate whether the employer paid UI taxes to the other state. Under state law, an employer may take credit against the taxable wage base for taxable wages paid to an employee who also worked for the employer in another state. We identified employees who had social security numbers issued outside the state and did not have in-state wages in the fourth quarter of the prior year. We concluded that such employees may have out-of-state wages during the review year with the same employer. Wages of these employees were not considered in calculating the employers' taxable wages. We also developed another method to identify potential out-of-state wages. We excluded some of an employee's wages if each of the following conditions were met:

- (1) the employee had wages in any calendar quarter of the current year or in the fourth quarter of the prior year with an employer;
- (2) the employee did not have any wages with the employer or any other employer in a subsequent quarter; and
- (3) the employee later had wages with the same employer in the calendar year.

For employees meeting the above criteria, we did not calculate any additional taxable wages after the quarter in which the employee had no wages. Our premise was that the employee may have been working for the employer in another state.

#### Consideration of Potential Wage Item Errors

In other instances, data entry errors occurred in an Agency's wage history files because of duplicate entry of wage items or entry under the wrong employer number. To reduce the chances of selecting an employer with this type error, we performed special computations for those employers whose total wages on the wage history file were more than 101 percent of total wages on the tax file. We excluded such employers from our review if the potential underpayment was due only to total wages being higher on the wage history file than on the tax file.

We calculated taxable wages for each employer based on actual wages up to the taxable wage base level for the remaining or "in-state" employees. Our computer program compared employer reported taxable wages with our computation of taxable wages that should have been reported, identified employers who had apparently underreported taxable wages, and calculated the amount of taxes potentially underpaid.

SUMMARY OF POTENTIAL TAX UNDERPAYMENTS

In each state, we produced an analysis showing the number of employers in various ranges of potential underpayments. The following summary shows the number of potential underpayments in excess of \$250 that remained after application of our restrictive screening criteria.

Potential Underpayments in Excess of \$250 Per Employer

<u>State</u>	<u>Review Period</u>	<u>Number of Employers</u>	<u>Total Potential Underpaid</u>	<u>Average Potential Underpaid</u>
Georgia	1/1/85-12/31/85	428	\$ 592,539	\$1,384
North Carolina	1/1/86-12/31/86	562	1,107,918	1,971
Louisiana	1/1/86-12/31/86	613	1,054,422	1,720
Louisiana (1)	1/1/87-9/30/87	246	421,201	1,712
New Mexico	1/1/86-12/31/86	103	329,414	3,198
New Mexico	1/1/87-12/31/87	97	181,872	1,874
Texas (1)	1/1/87-12/31/87	<u>1,306</u>	<u>2,979,372</u>	<u>2,281</u>
Total		<u>3,355</u>	<u>\$6,666,738</u>	\$1,987

(1) We identified additional potential underpayments by performing a special analysis of the Louisiana debt service file for the third quarter of 1987, and the Texas first quarter 1988 wage/tax files. These analyses are discussed on pages 15, 16 and 17 of this report.

Review of Potential Underpayments

In cooperation with Agency personnel in each state, we reviewed details of some of the largest potential underpayments to verify the accuracy of our analysis. These reviews showed many instances of

obvious underpayments as well as many other instances where there was no actual underpayment. In numerous instances where there was no actual underpayment, the potential underpayment was caused by agency/employer errors or by system limitations, such as out-of-state wages not being identified.

In many instances, we could not identify a cause for the potential underpayments by reviewing quarterly tax reports and documentation in agency files. To determine if there is an actual underpayment and the amount of underpayment, the agency must contact the employer and request supporting documentation showing how taxable wages were calculated.

#### Causes of Potential Underpayments

For those potential underpayments for which we could determine a cause, some of the most prevalent categories were as follows:

1. **Self-appointed successors or partial-successors.** These were instances where an employer was using wage credits of another employer to reduce taxable wages. Presumably, the employer taking the wage credits was the successor and the employer whose wage credits are being used was the predecessor. However, in such cases, the Agency files did not show any successorship linkage, but instead showed the employers as separate entities. State laws vary concerning allowability of wage credit transfers from predecessors to successors. For example, in North Carolina, a successor has 2 years from the date of successorship to file the proper forms with the Agency requesting approval for wage credit transfer, and the forms must be signed by both the predecessor and successor. In Georgia, a partial successor has only two calendar quarters in which to request approval for wage credit transfers.

All such cases should be reviewed by the Agencies to determine if a bona fide succession did take place and if the successor was using the proper wage credits and tax rate in accordance with state law.

2. **Paying taxes on excess wages.** We noted numerous instances where employers underpaid taxes because they paid taxes on excess wages instead of on taxable wages. Excess wages are the amount of wages above the taxable wage base. This practice was so prevalent that we developed a computer program to specifically identify such instances.
3. **Paying taxes on wrong taxable wage base.** Many employers underpaid taxes because they paid taxes on a taxable wage base that was less than the taxable wage base that was in effect during our review period. This practice was so common, we developed a computer program to specifically identify such cases.
4. **Other Employer errors.** These errors were primarily computational, such as errors in adding quarterly report page totals or omitting some pages or employees. Some errors, such as errors in social security numbers did not result in an actual underpayment.
5. **Agency errors.** There were numerous instances where agency data entry errors in social security numbers caused a potential underpayment but, upon review of wage reports, we determined there was no underpayment. Other examples include entering year-to-date wages instead of quarterly wages, double entry of quarterly reports, and entry of wage details under the wrong employer number.
6. **Potential out-of-state wages.** In many cases, a potential underpayment appeared to have occurred because employers were not

paying taxes on employees who had worked in another state earlier in the year and for whom taxes had already been paid. This practice appeared to be common in construction companies. In such cases, agencies should contact employers and request documentation showing taxable wages were reported to other states.

We provided each state with listings of potential underpayments and documentation on the cases we reviewed where there appeared to be an overpayment. We recommended that the states review the listings and contact employers or perform field audits for those cases that appeared to be actual underpayments. We also requested the five states to provide us with periodic updates on the results of their reviews. To date, Georgia and North Carolina have provided us update reports. These updates are included below in the state summaries.

#### Summary of Work Performed in Each State

A summary of the work we performed in each state and the responses received to date follow:

##### Georgia

We reviewed a statistical stratified random sample of 78 employers from the universe of 428 employers with potential underpayments in excess of \$250. We concluded that 43 of the employers had probable underpaid taxes of \$243,415. The Georgia Agency reported to us on May 13, 1988 (Appendix I), that Georgia had collected \$158,329 tax and \$17,916 interest from 34 of the employers. Another four employers owed the Agency \$8,543 tax plus interest.

## North Carolina

With the assistance of the Agency, we reviewed 165 cases with potential underpayments in excess of \$750 per case. We determined that 132 of the employers had potential underpayments totaling \$965,002. Thirty-three (33) cases were resolved with no additional tax due. We also provided the Agency with listings of employers who potentially underpaid taxes due to using excess wages or the wrong wage base level to compute taxes.

The North Carolina Agency reported to us on April 8, 1988 (Appendix II), that North Carolina had processed 159 cases we provided them. They had recovered \$209,534 from 60 employers and had billed 14 other employers for \$83,439. They determined that 85 of the 159 employers owed no taxes due to errors on computer files, transfers of wage credits to successors, out-of-state wages, etc.

## Louisiana

We provided summary and detailed listings of potential underpayments to the Agency for review. After screening the 220 largest cases for calendar year 1986 the Agency categorized the cases as follows:

<u>Category</u>	<u>Number of Employers</u>	<u>Potential Underpaid Taxes</u>
1. Field audits needed	62	\$154,866
2. Successorship problems	59	406,925
3. Probable out-of-state wages	43	251,646
4. Taxes paid only on nontaxable (excess) wages	48	94,832
5. No underpayment	8	0
Total	<u>220</u>	<u>\$908,269</u>

We also provided the Agency with a listing of potential underpayments for the first three quarters of 1987. The Agency was reviewing this listing at the conclusion of our field work.

#### Louisiana Debt Service Tax Analysis

The Louisiana Agency also requested our assistance in identifying employers not properly paying the newly enacted debt service tax. Effective July 1, 1987, Louisiana employers are required to pay this special debt service tax to retire bonds the State issued to repay advances from the Federal Unemployment Account of the Unemployment Trust Fund. The debt service tax was 1.4 percent of the first \$7,500 of wages paid by employers to each employee for the period July 1, 1987 - December 31, 1987. Effective January 1, 1988, the debt service tax is 1.4 percent of the first \$15,000 of wages.

We used special computer programs to identify employers who potentially underpaid debt service tax. Using a \$7,500 taxable wage base for the third quarter of 1987, we calculated debt service taxable wages for each employer. We compared our computations with debt service taxable wages reported by employers and identified employers who had potentially underpaid their third quarter 1987 debt service taxes by more than \$100. We identified 2,543 employers with potential underpayments of \$3,036,793. The Agency is in the process of verifying the accuracy of our computations and collecting the underpayments. The Agency said that our computations appear to be correct in about 75 percent of the cases. The cases that will not result in additional tax were caused mostly by Agency data-entry errors in entering employer wage reports onto the wage file.

## New Mexico

In cooperation with the Agency, we reviewed available documentation on 53 employers with calendar year 1986 potential underpayments in excess of \$500. We determined that 30 of the employers had potential underpayments of \$46,072. We also reviewed the 47 employers in calendar year 1987 with the largest potential underpayments. We determined that 30 of the employers had potential underpayments of \$52,057. The Agency is following up on these cases. We also provided the Agency with additional listings of potential underpayments from \$100 to \$500 excluding out-of-state wages, and potential underpayments in excess of \$500 not excluding out-of-state wages.

## Texas

We provided the Agency with detailed listings of calendar year 1987 employers with potential underpaid taxes in excess of \$1,000, excluding out-of-state wages. There were 310 employers on the listings with potential underpaid taxes of \$2,741,873. We also provided similar listings not excluding out-of-state wages. There were 1,212 employers on that listing with potential underpaid taxes of \$8,082,644.

### Texas First Quarter 1988 Wage/Tax Analysis

While we were performing the 1987 analysis, the Texas Agency requested our assistance in determining if employers were underpaying first quarter 1988 taxes. This quarter was of particular interest to the Agency because the taxable wage base increased from \$7,000 to \$8,000 effective January 1, 1988. The Agency wanted an effective means of verifying employer compliance with the wage base increase.

Because the first quarter 1988 wage records were not yet updated on the Agency's base period wage history file, and only one quarter of data would be analyzed instead of a calendar year, we developed special computer programs to perform the analysis. We used an Agency cumulative wage file containing all wage records received during the current quarter. We used an Agency-created special tax file containing all available first quarter 1988 tax records. Because we were working only with one quarter of data, correcting errors in social security numbers and linking predecessors and successors was not necessary for the proper computation of taxable wages.

The Agency requested we print listings of all employers who potentially underpaid their first quarter 1988 tax by more than \$10. We performed the analysis and printed listings on June 1, 1988, showing 11,934 employers had potentially underpaid \$5,499,616 in first quarter 1988 tax. To assist the Agency in readily identifying employers who underpaid their tax due to paying on a \$7,000 wage base, we produced additional restrictive listings. These listings were restricted to employers whose reported taxable wages were within one percent of our special computation of taxable wages using a \$7,000 wage base. There were 7,378 employers with potential underpayments of \$1,022,327 on the restricted listings.

METHODOLOGY USED TO IDENTIFY AND CORRECT SSN ERRORS  
BEFORE COMPUTING TAXABLE WAGES

Computer programming was necessary to correct obvious social security number (SSN) errors in order to more accurately calculate taxable wages for each employer. Such errors also cause problems for an Agency when performing monetary determinations for UI claimants. Errors in SSNs on the wage record file may cause incorrect determinations of benefits payable. If such errors are detected, an Agency must redetermine benefits. If the errors are not detected, claimants may be under/overpaid benefits. Such errors also adversely affect other Agencies' use of wage data in determining applicants' eligibility for various social programs. By using the computer program we developed to detect errors, an Agency could periodically detect and correct any SSN errors in the wage records.

During the course of the five reviews, we refined our computer error correction program substantially. These refinements helped us to more accurately correct SSN errors as we gained additional experience from each subsequent review. The following is a general description of the methodology we used in Texas, the last state in our review. These concepts could be applied in various programming languages by other states, depending on data elements on the wage file.

Of the five states in our review, only Texas and New Mexico carried the first initial of each wage earner on the wage file. Louisiana did not have any name control on the wage file. In Texas and New Mexico, we modified our program so that a record could be considered correctable only if it had one quarter of wages. We believe this methodology produces more accurate results.

Our basis for correcting errors in SSNs was a computerized comparison of each employer's wage records. For every employer, we compared each

wage record's SSN and wage quarters. Wage records with a difference of only one digit in SSNs or with a two-digit transposition difference, and having a surname with the first three characters the same, having the same first initial, and having dissimilar quarters of wages were considered to be potential errors. If one of the records had only one quarterly wage item, we considered the SSN of the record with the one wage quarter to be a potentially correctable error.

To test the validity of our computer program, we manually reviewed a randomly selected sample of the potentially correctable errors in each of the five states.

CONCLUSIONS REGARDING CORRECTION OF SOCIAL SECURITY NUMBER ERRORS

Our review of the statistical samples showed that computerized corrections of errors in social security numbers can be made with a high degree of accuracy. The following is a summary of the samples reviewed:

Summary of SSN Error Correction Samples

<u>State</u>	<u>SSNs on Wage File</u>	<u>Potentially Correctable</u>	<u>Sample Size</u>	<u>Errors Properly Corrected</u>
Georgia 1-digit sample	5,596,818	88,917	120	120
Georgia 2-digit sample	5,596,818	14,099	119	112
North Carolina	5,079,241	46,522	124	123
Louisiana	2,501,428	36,736	124	116
New Mexico	1,026,845	19,248	123	123
Texas	13,611,633	204,386	124	124

## Summary of the SSN Errors Samples

### Georgia

We selected two samples. For the one-digit sample all 120 errors were corrected properly. We are 95 percent confident that of the 88,917 potentially correctable one-digit errors, no more than 2.6 percent (2,312) of the adjustments would be improper. For the two-digit sample, 112 of the 119 errors were corrected properly. We are 95 percent confident that of the 14,099 potentially correctable errors, no more than 10.9 percent (1,537) of the adjustments would be improper. Because of the high error rate in the two-digit sample, we limited two-digit potentially correctable errors in subsequent state samples to transposition errors.

### North Carolina

Of a sample of 124 social security numbers, we properly identified and corrected 123 errors. We are 97.5 percent confident that of the 46,522 potentially correctable errors, no more than 4.8 percent (2,233) of the adjustments would be improper.

### Louisiana

Of a sample of 124 social security numbers, we properly identified and corrected 116 errors. We are 97.5 percent confident that of the 36,736 potentially correctable errors, no more than 13.1 percent (4,812) would be adjusted improperly. The high error rate in our sample was primarily due to a name control not being on the Louisiana Wage History File.

### New Mexico

All 123 social security number errors in our sample were corrected properly. We are 95 percent confident that of the 19,248 potentially correctable errors, no more than 2.6 percent (500) of the adjustments would be improper. We attribute this low error rate to using the first initial on each wage record as an additional control, and considering a social security number error as potentially correctable only if it has one quarter of wages.

### Texas

All 124 social security number errors in our sample were corrected properly. We are 95 percent confident that of the 204,386 potentially correctable errors, no more than 2.6 percent (5,314) would be adjusted improperly. The methodology to identify potentially correctable errors was the same as that used in New Mexico.

## OVERALL CONCLUSIONS

In our opinion, the underpayment detection programs can be utilized by State Employment Security Agencies as an effective tool in targeting employers for either in-house or field audit assignments. These programs would be especially useful in states with recent large increases in taxable wage bases or in states with special taxes, such as the debt service tax in Louisiana. The programs could also be very productive in states with restrictive laws concerning wage credit transfers for employer partial or total successions.

For states wanting to use the system but having only limited resources to review the potential underpayments, the reviews could be restricted to the most potentially productive cases. Restricting the reviews to only those employees with potential underpayments in excess of \$1,000 would substantially reduce the number of case reviews as shown below:

<u>Potential Underpayments in Excess of \$1,000</u>				
<u>After Application of Restrictive Screening Criteria</u>				
<u>State</u>	<u>Review</u> <u>Period</u>	<u>Number of</u> <u>Employers</u>	<u>Total</u> <u>Potential</u> <u>Underpaid</u>	<u>Average</u> <u>Potential</u> <u>Underpaid</u>
Georgia	1/1/85-12/31/85	104	\$ 440,437	\$ 4,235
North Carolina	1/1/86-12/31/86	120	916,110	7,634
Louisiana	1/1/86-12/31/86	149	841,107	5,645
Louisiana (1)	1/1/87-9/30/87	60	336,698	5,612
New Mexico	1/1/86-12/31/86	26	297,494	11,442
New Mexico	1/1/87-12/31/87	12	145,001	12,083
Texas (1)	1/1/87-12/31/87	<u>302</u>	<u>2,519,026</u>	8,341
Total		<u>773</u>	<u>\$5,495,873</u>	\$ 7,110

(1) We identified additional potential underpayments by performing a special analysis of the Louisiana debt service file for the third quarter of 1987, and the Texas first quarter 1988 wage/tax files. These analyses are discussed elsewhere in this report.

In our opinion, the SSN edit runs can provide State Employment Security Agencies with an efficient means of detecting and correcting SSN data entry errors and employer-reported SSNs. These edit runs could save substantial resources utilized in redetermining claims and help ensure accuracy of data shared with other agencies.

## RECOMMENDATIONS

The ETA should disseminate the information in this report to State Employment Security Agencies. Interested SESAs should be encouraged to establish systems as described in this report to detect potential employer underpayments and SSN errors. Assistance should be provided where feasible to Agencies wishing to implement the system.

To aid State Employment Security Agencies in further understanding the system and determining if they would be interested in installing it, we have provided supplemental illustrative information in this report. Appendix V contains procedures, listings of programs, and a systems flowchart we provided to the Texas Employment Commission to run the system in Texas for calendar year 1988. The initial wage and tax extract programs would have to be modified in each state to accommodate differences in wage and tax file structures, codes, state laws and regulations concerning transfer of wage credits to successors, etc. Also, the program that computes taxable wages for each employer would have to be modified to compute on the taxable wage base in effect in the state during a specific year.

If desired, OIG can provide interested agencies with program listings or magnetic tape copies of the programs. OIG staff would also be available for consultation or technical assistance. Such assistance, by necessity, would be limited to no more than brief visits to an agency.

To further encourage State Employment Security Agencies to adopt the underpayment detection system, the ETA should consider modifying its current field audit standards that require Agencies to audit at least 4 percent of the employers each year. This requirement should be relaxed for those states willing to perform more potentially

productive audits of employers identified by the underpayment detection system. For further comments on the 4 percent field audit requirement, please see page 2 of the North Carolina response at Appendix II.

APPENDICES

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# GEORGIA DEPARTMENT OF LABOR

APPENDIX I  
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MAY 19 3 11 PM '88

U.S. DEPT. OF LABOR -  
OFFICE OF  
INSPECTOR GENERAL  
ATLANTA AUDIT OFFICE

May 13, 1988

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Atlanta, Georgia 30334

Mr. Robert R. Wallace  
Regional Inspector General for Audit  
U. S. Department of Labor  
1371 Peachtree Street, N. E.  
Atlanta, Georgia 30367

Re: UI Taxable Wage Review

Dear Mr. Wallace:

This will provide you with an update of our experience regarding the study your staff conducted of 1985 taxable wages reported by Georgia employers, and our comments concerning the future use of the procedures developed from the project.

After eliminating cases with errors or cases that were already pending adjustment or review, collection letters were mailed to 44 employers identified by your audit. As a result of these contacts, 34 employers paid the amounts determined due. The total collected was \$176,244.64 (\$158,328.86 tax + \$17,915.78 interest).

Six employers responded with information sufficient to offset their proposed increase in tax. The total amount determined not due was \$4,229.09.

To date, four employers have not paid the additional taxes. This amounts to \$8,542.70 plus interest. Appropriate follow-up activity is being taken in this regard.

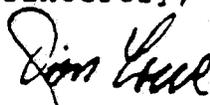
We are very pleased with the results of the sample cases developed by your auditors and plan to utilize the computer programs they provided. Initially, we will be using the computer edits and corrections of social security numbers to improve the accuracy of our wage files. We plan also to install the programs which identify potential underpaid taxes and process them against our records for 1986 and 1987. We believe, as you indicated, that potential unpaid taxes may be discovered for these years due to the difference in Georgia's taxable wage base (\$7,500) and the federal wage base of \$7,000. Since this particular part of

the process requires extensive manual activity it will be phased in conjunctively with available staff time.

In closing, we would like to thank you for the opportunity to participate in the development and testing of your model computer programs. Based on our experience so far, we believe these programs can be an effective tool in our continuing emphasis on overall program improvement and quality control.

With best wishes, I am

Sincerely,



James A. Lowe  
Deputy Commissioner  
Employment and Training Programs



# EMPLOYMENT SECURITY COMMISSION OF NORTH CAROLINA

POST OFFICE BOX 25903, RALEIGH, NORTH CAROLINA 27611

April 8, 1988

Mr. Gerald W. Peterson, Assistant  
Inspector General for Audit  
200 Constitution Avenue N. W.  
Room S-5030  
Washington, DC 20210

RECEIVED  
APR 13 1 18 PM '88  
U.S. DEPT. OF LABOR  
OFFICE OF THE  
INSPECTOR GENERAL  
ATLANTA AUDIT OFFICE

Dear Mr. Peterson:

I want to take this opportunity to thank the members of the Atlanta Regional Office of the OIG, Stanley McGhee and Van O'Connor under the direction of John Riggs, who helped us determine potential underpayments of unemployment insurance taxes by employers. They accomplished this by developing numerous programs (which they left with our Data Processing staff) to access our computer files to detect:

1. Possible incorrect social security numbers on our wage file, and
2. Employers reporting and paying unemployment insurance taxes on an incorrect amount of taxable wages.

Their programs detected 3,244 employers who had possibly paid unemployment insurance taxes on an incorrect amount of taxable wages. Of these 3,244 cases, they reviewed and/or provided our staff with 209 cases.

After reviewing their documentation and making the necessary adjustments to our employer and/or wage files, the Tax Department has processed 159 cases. Of those cases 73 required no Assessment to be sent to the employer because the potential underpayment was created by incorrect information on the wage file which was subsequently corrected, employers who had claimed wage credits from their predecessors that they were not entitled to but subsequently transferred the reserve account, etc.

Mr. Gerald W. Peterson - 2 - April 8, 1988

86 cases required a Tax Assessment and Demand for Payment be sent to the employer. The disposition of those cases is as follows:

Number Paid:	60
Amount Collected:	\$209,533.83
Amount OIG Auditors Calculated to be Underpaid:	\$241,609.22
Number Cancelled:	12
Reasons for Cancellation:	6 Transfer of Reserve Account forms received
	5 Out-of-state wages (tax paid to another state)
	1 First quarter 1986 wages posted to incorrect account number
Amount OIG Auditors Calculated to be Underpaid:	\$268,057.09
Number of Outstanding Bills:	14
Amount of Outstanding Bills:	\$83,439.13
Amount OIG Auditors Calculated to be Underpaid:	\$86,138.78

We plan to run these programs annually as we feel that they are very valuable tools in detecting possible under-reporting of taxable wages and underpayment of unemployment insurance taxes. We believe that other states could gain from having access to these programs especially if their taxable wage base changes annually and if the transfer of a predecessor's experience rating account is not mandatory.

We feel that the implementation of this program and the subsequent follow-up would better serve this Agency than to perform audits merely for the sake of meeting ETA's 4% Desired Level of Achievement for Audit Penetration. For instance, we performed 1,207 audits for the period January through March 1988 in which we detected \$26,110.00 in underpayments of unemployment insurance taxes and \$23,807.00 in overpayments of unemployment insurance taxes for a net underpayment of \$2,303.00. When these figures are compared to a collection of \$209,533.83 from 60 "OIG audits", it appears that our time and money could best be spent processing the cases detected by your auditors' computer programs.

Again, let me say that we feel that these programs are very valuable tools that this Agency intends to use in the detection of underpayment of unemployment insurance taxes by employers.

Mr. Gerald W. Peterson - 2 - April 8, 1988

If we can provide you with any further information, please contact Miriam B. Fry, Assistant Director for Tax, at Telephone Number (919) 733-7395.

Sincerely,

*Joseph G. Elliott*  
for Betsy N. Justus  
Chairman

Copy to: Mr. John Riggs, Assistant  
Regional Inspector General  
1321 Peachtree N. E.  
Room 240  
Atlanta, Georgia 30367



RECEIVED

State of Louisiana  
DEPARTMENT OF LABOR

APR 8 10 11 AM '88

OFFICE OF EMPLOYMENT SECURITY U.S. DEPT. OF LABOR  
P. O. BOX 44094  
Baton Rouge, Louisiana 70804-ATLANTA AUDIT OFFICE  
(504) 342-3013

PHYLLIS MOUTON  
SECRETARY OF LABOR

March 28, 1988

JUANITA BERG  
ASSISTANT SECRETARY OF LABOR

Mr. Gerald W. Peterson  
Assistant Inspector General for Audit  
200 Constitution Avenue, N. W.  
Room S-5030  
Washington, D. C. 20210

Dear Mr. Peterson:

We would like to take this opportunity to express our appreciation to the Office of Inspector General for assisting this Agency in identifying problems within our employer tax files and employee wage history files.

The Tax Operations staff plans to utilize the model programs that affect the Employer Accounts and Debt Service files. These programs have proved to be useful in determining potential underpayments of unemployment insurance taxes.

We wish to thank Mr. John Riggs and his staff; Mr. Stanley McGhee, Mr. Van O'Connor, Ms. Genease Mathews and Ms. Kerrie Russell for the programs they prepared for this Agency. Through their diligent work, the Louisiana Department of Labor has the potential of collecting an additional \$1.3 million in unemployment insurance taxes due the State. Also, their assistance with our new Debt Service Tax realized a potential collection of \$3.1 million.

The software programs designed for the employee wage history files have assisted in correcting approximately 33,000 social security number errors, and has allowed this Agency to pay unemployment insurance benefits faster with a reduced number of benefit assignments sent to tax auditors in the field.

Again, we express our appreciation to the Office of Inspector General and welcomed the opportunity to be involved in this project.

Sincerely,

Juanita B. Berg  
Assistant Secretary/Administrator

JBB:MEW:ae

# TEXAS EMPLOYMENT COMMISSION

Austin, Texas 78778  
July 18, 1988



Mr. John Riggs  
Regional Inspector for Audit  
U.S. Department of Labor  
Office of Inspector General  
1371 Peachtree North East  
Atlanta, Georgia 30367

Dear Mr. Riggs:

We appreciate the excellent work that was done for us in the last few months by Mr. Van O'Conner, Mr. Stanley McGhee and Ms. Genease Mathews of your agency. Their efforts have produced some very good results in leads of potential under payments of taxes by Texas employers.

The State of Texas taxable wage reporting base has increased from \$7000.00 in 1987 to \$8000.00 in 1988. The EASYTRIEVE programs developed detected a large number of employers that did not properly report the correct taxable wages for the year 1987 and during the first quarter of 1988. The programs will be used against other 1988 quarters as well as subsequent years.

Thank you for your assistance and the great job completed by your agency.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'James W. Jackson', with a long horizontal flourish extending to the right.

James W. Jackson  
Unemployment Insurance  
Director

APPENDIX V

CALENDAR YEAR 1988

1. PROCEDURES
2. LISTING OF PROGRAMS
3. FLOWCHART OF PROGRAMS

TEXAS UI TAXABLE WAGES TECHNICAL ASSISTANCE  
1988 TAX FILE/WAGE FILE ANALYSIS  
PROCEDURES

1. Request Eddie McHargue to create a wage file for 4th quarter 1987 through 4th quarter 1988. the file should be in the same format and the location of each quarter's data should be the same as that created for the OIG auditors for the 4th quarter 1986 through 4th quarter 1987. The name of that file is P.IN.WFO4.WF300864. All fields for unavailable quarters should be zero-filled or blank-filled depending on the field format. If this job is to be run quarterly, request the file to be built after each quarter's wage records are available on the computer.
2. Request David Riley to create a tax file containing tax data for each quarter in 1988. The file should be in the same format and the location of each quarter's data should be the same as that created for the OIG auditors for calendar year 1987. The name of that file is P.EA.TX88.TX939VOL. All fields for unavailable quarters should be zero-filled or blank-filled depending on the field format. If this job is to be run quarterly, request the file to be built after each quarter's tax records are available on the computer.
3. Submit the Easytrieve jobs in the sequence on the listing of computer programs. Submit only one job at a time. Verify that the job finishes with a completion code of '0000' before submitting the next job. Spot check the printouts to verify the accuracy of the data.
4. Obtain from Eddie McHargue and David Riley the names of the wage and tax files for 1988. If different than the 1987 names, the input file names in programs WAGE1 and TAX1 must be changed accordingly prior to submitting the programs.
5. The programs were set up with output file names containing the date of June 21 or 22, 1988, imbedded in the file name. At the time each job is run, change the date to that of the current date. Remember that subsequent programs using the files must have the name of the input file changed accordingly.
6. For control purposes, maintain a log of runs.

TEXAS UI TAXABLE WAGES TECHNICAL ASSISTANCE  
1988 TAX FILE/WAGE FILE ANALYSIS  
LISTING OF COMPUTER PROGRAMS

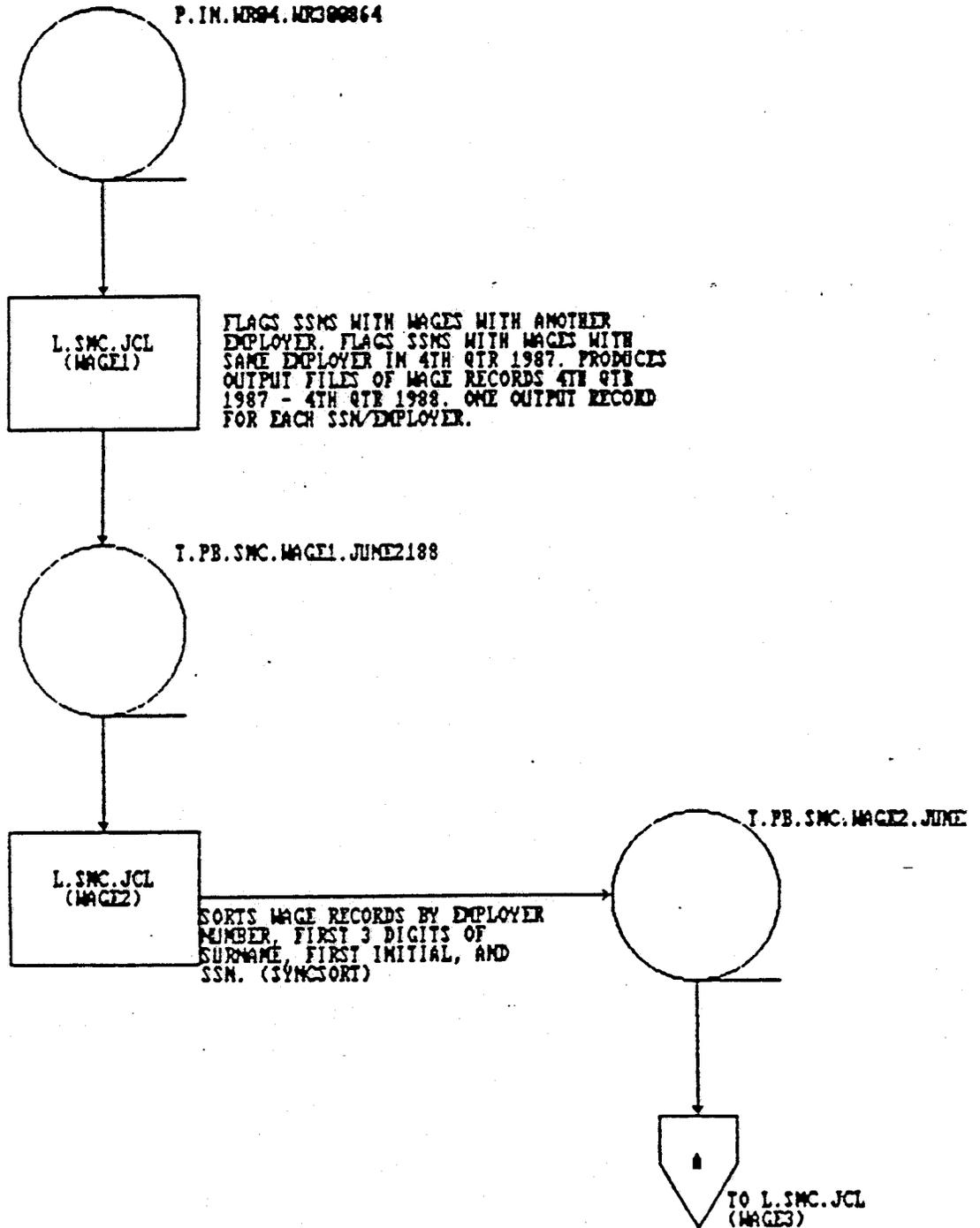
	<u>MEMBER</u> <u>NAME</u>	<u>DESCRIPTION</u>
1.	WAGE1	Flags SSNS and produces output files of wage records.
2.	WAGE2	Sorts wage records by employer, surname, first initial, SSN.
3.	WAGE3	Corrects SSN errors and drops duplicate records.
4.	TAX1	Extracts 1988 tax data and flags successions.
5.	TAX2	Produces a file of successions.
6.	TAX3	Updates successor file with second successor number.
7.	TAX4	Updates 1988 tax records with final successor number.
8.	TAX5	Sorts 1988 tax records by final successor number.
9.	TAX6	Combines tax records of successors/predecessors.
10.	WAGE4	Updates wage records with final successor number.
11.	WAGE5	Sorts wage records by final successor, SSN, surname.
12.	WAGE6	Computes employers taxable wages excluding out-of-state wages.
13.	WAGE7	Computes employers taxable wages <u>not</u> excluding out-of-state wages.
14.	WAGETAX1	Compute potential underpaid taxes excluding out-of-state wages.
15.	WAGETAX2	Count range of underpayments excluding out-of-state wages.
16.	WAGETAX3	Computes potential underpaid taxes <u>not</u> excluding out-of-state wages.
17.	WAGETAX4	Count range of underpayments <u>not</u> excluding out-of-state wages.
18.	WAGETAX5	Identify employers who paid taxes on excess wages.
19.	WAGE8	Print SSN quarterly wage details for selected employers.

TEXAS HI TAXABLE WAGES TECHNICAL ASSISTANCE  
 1988 TAX FILE/WAGE FILE ANALYSIS  
 FLOWCHART OF COMPUTER PROGRAMS

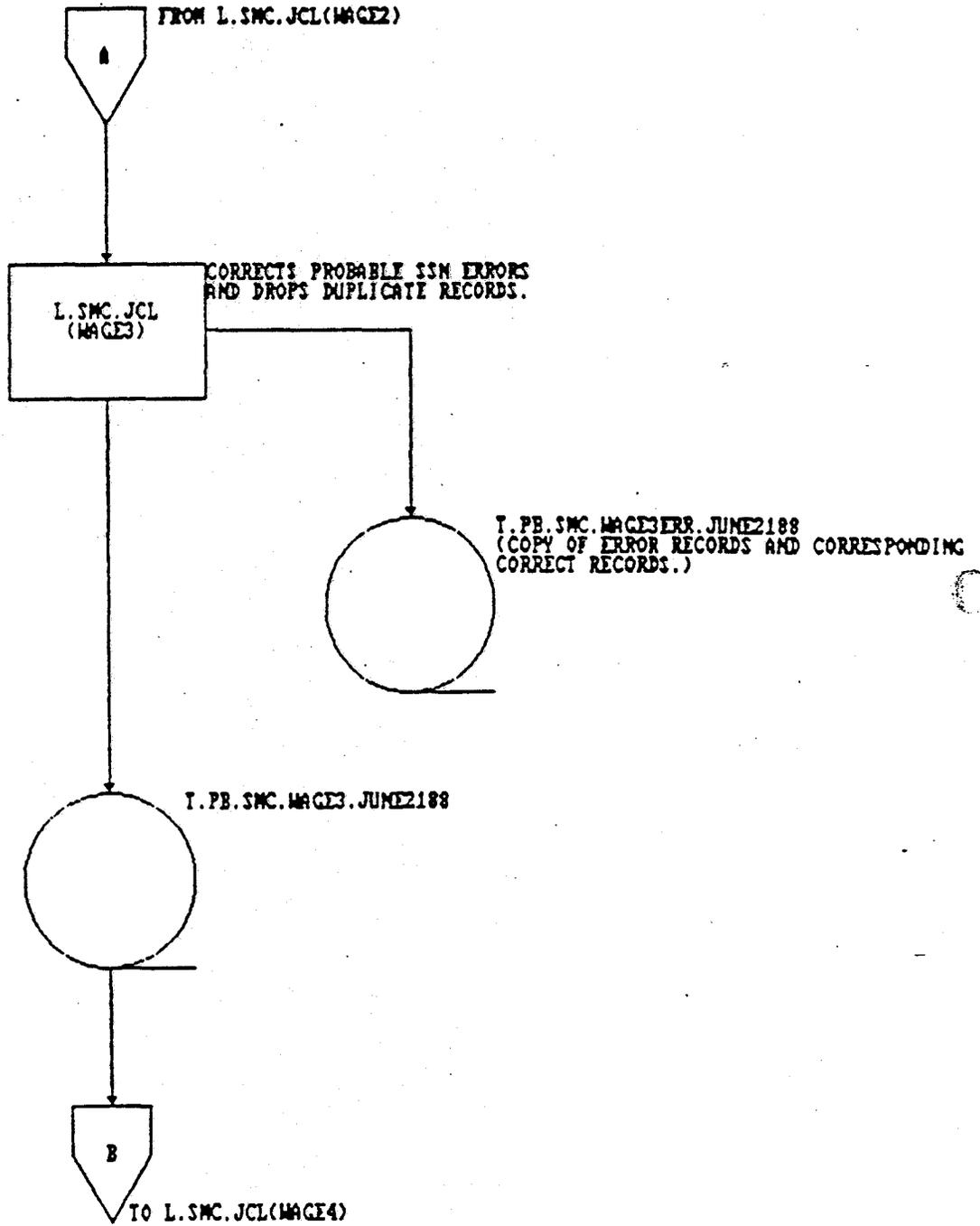
P.IN.WR94.WP308864

AGENCY WAGE HISTORY FILE (4TH QTR 1987 - 4TH QTR 1988)

(EACH QUARTER'S DATA MUST BE IN A PRESCRIBED FIXED LOCATION. ALL FIELDS FOR UNAVAILABLE QUARTERS MUST BE ZERO/BLANK FILLED. THE LOCATION OF A SPECIFIC QUARTER'S DATA MUST NEVER BE CHANGED. OBTAIN FILE FROM EDDIE WCHARGE.)

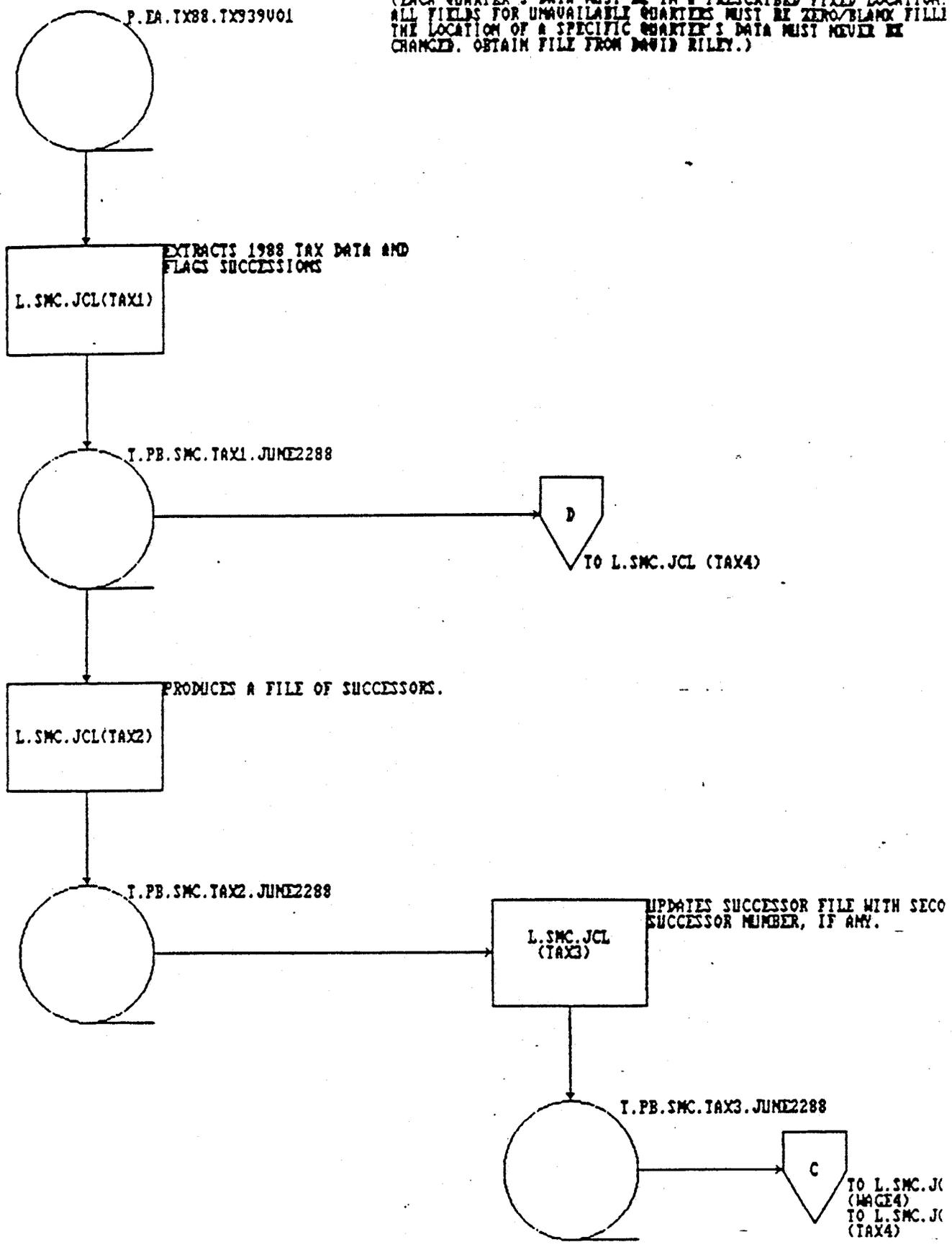


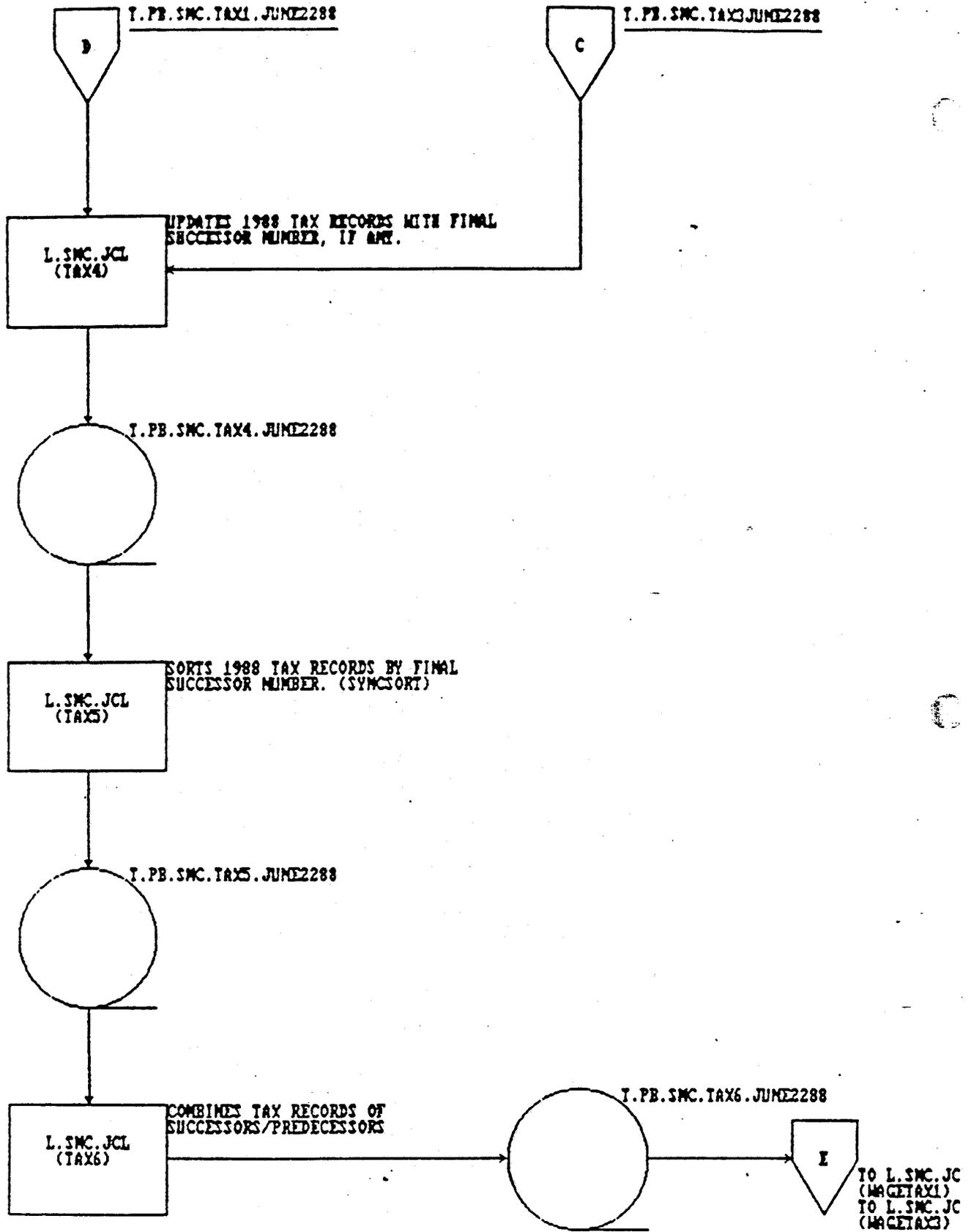
T.PB.SMC.WAGE2.JUNE2188

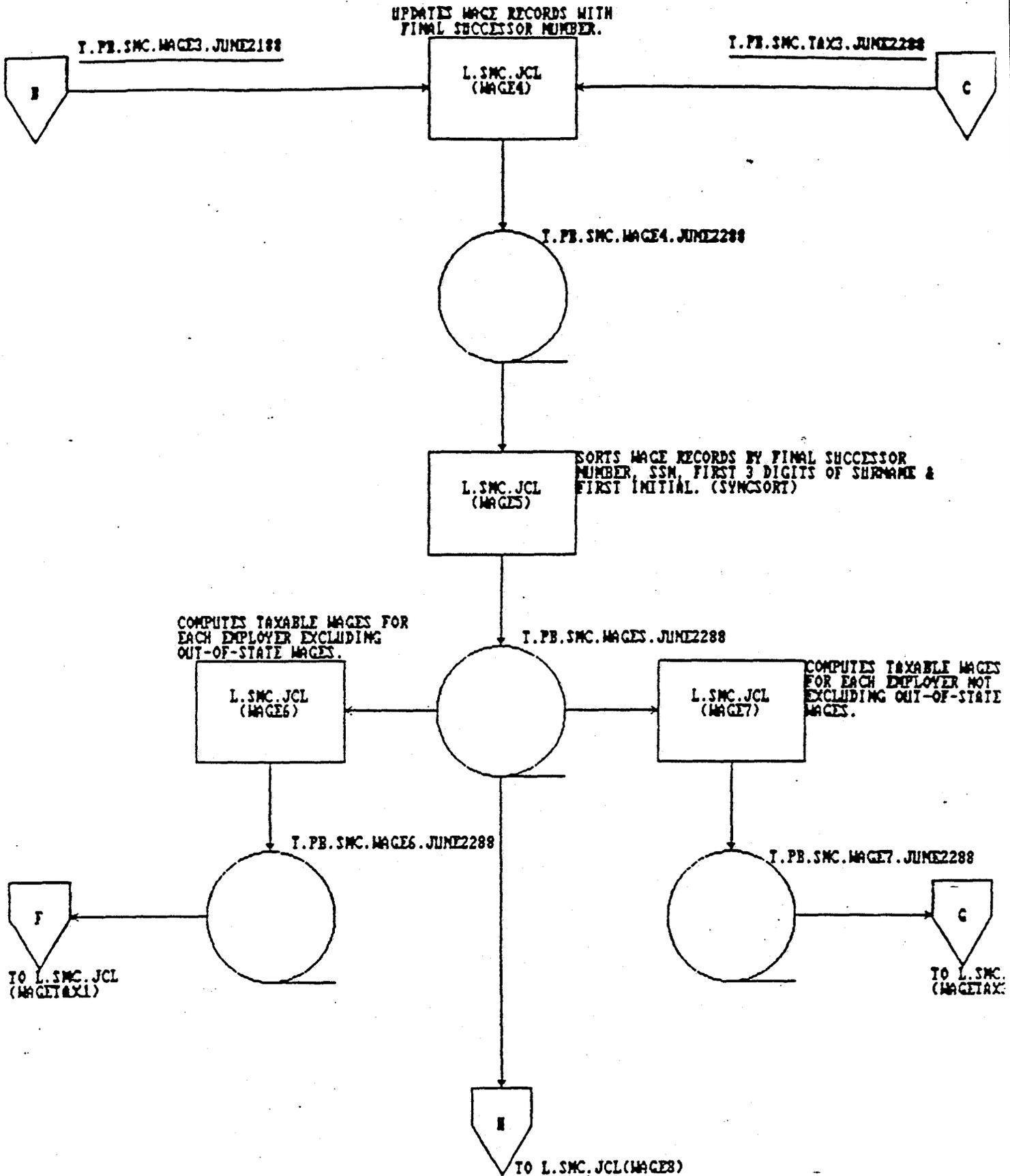


1988 EMPLOYER TAX FILE - P.EA.TX88.TX939001

(EACH QUARTER'S DATA MUST BE IN A PRESCRIBED FIXED LOCATION. ALL FIELDS FOR UNAVAILABLE QUARTERS MUST BE ZERO/BLANK FILL. THE LOCATION OF A SPECIFIC QUARTER'S DATA MUST NEVER BE CHANGED. OBTAIN FILE FROM DAVID RILEY.)

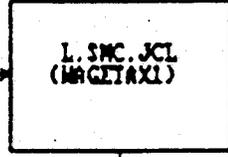




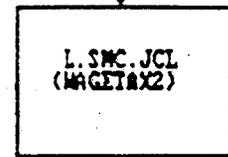
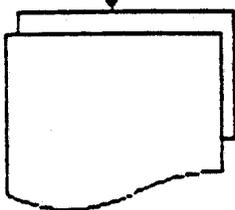
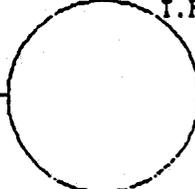




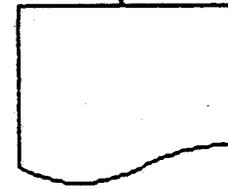
COMPUTE POTENTIAL UNDERPAID TAX FOR EACH EMPLOYER EXCLUDING OUT-OF-STATE WAGES AND PRINT UNDERPAYMENT REPORTS.

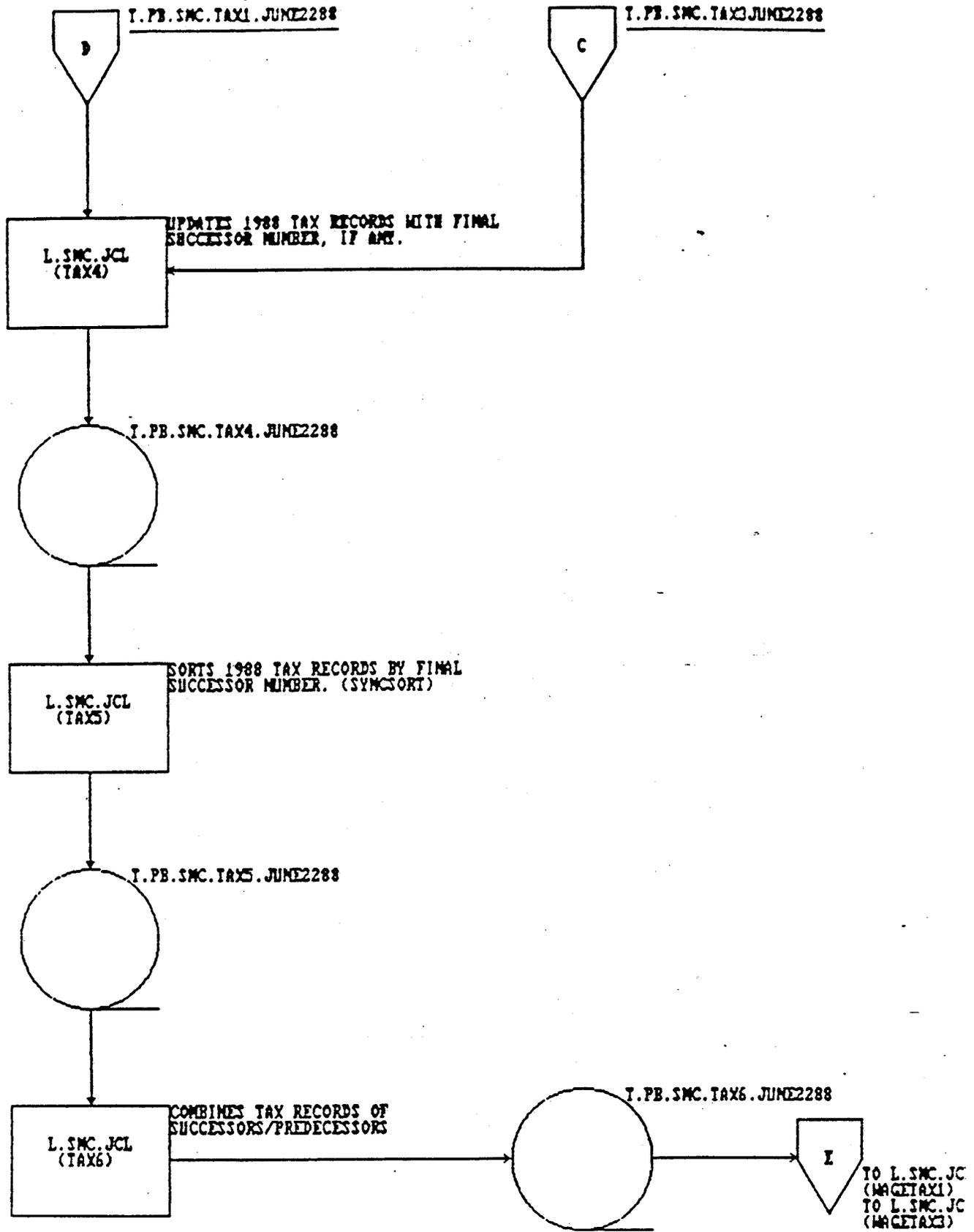


T. PB. SMC. WAGETAX1. JUNE2288



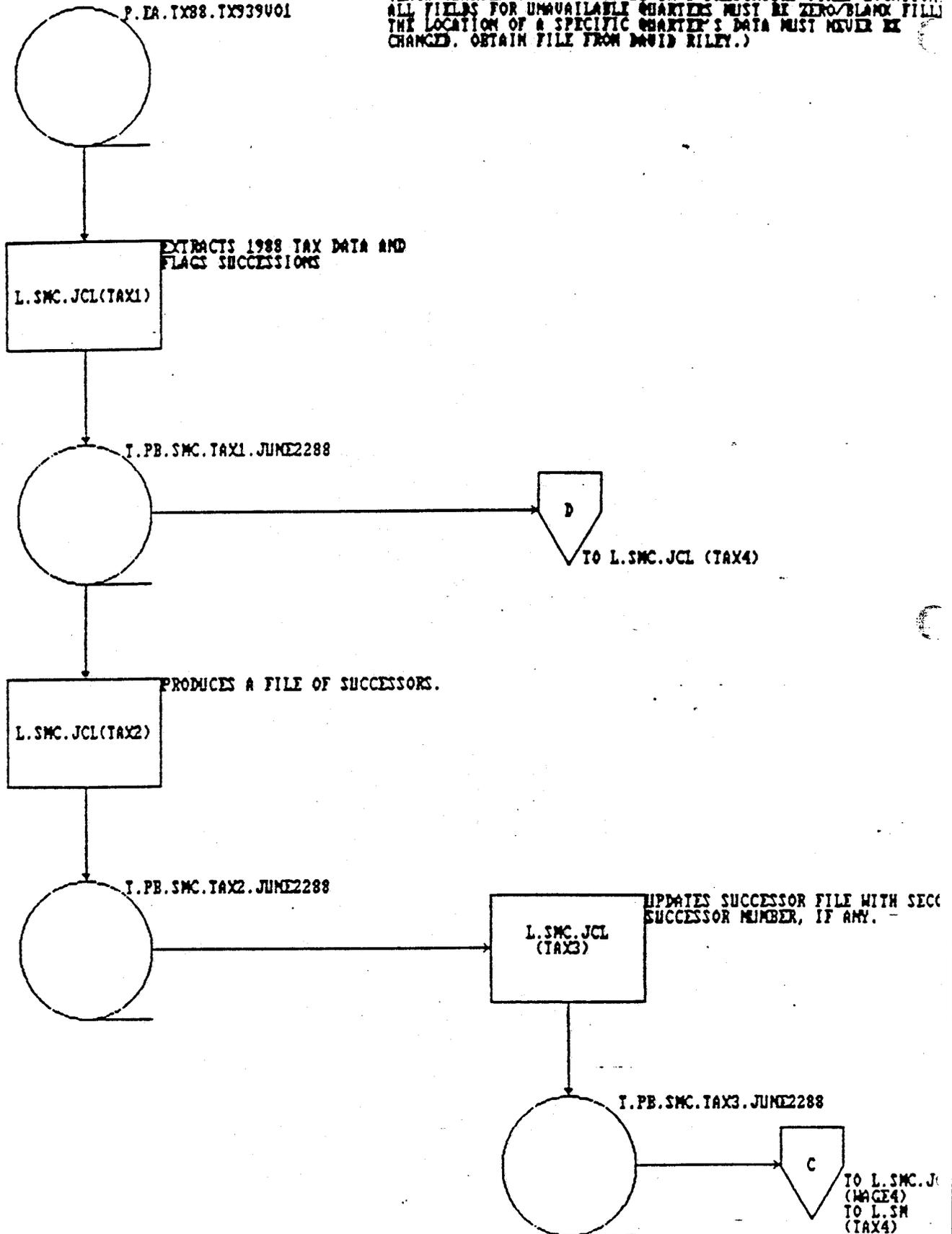
COUNT # OF EMPLOYERS ) VARIOUS RANGES OF POTENTIAL UNDERPAYMENT.





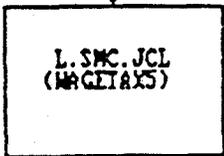
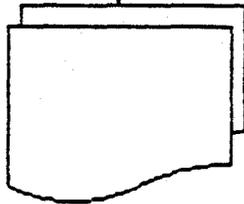
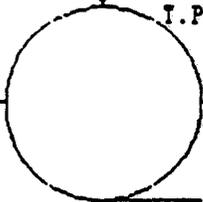
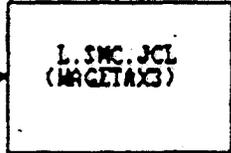
1988 EMPLOYER TAX FILE - P.EA.TX88.TX939001

(EACH QUARTER'S DATA MUST BE IN A PRESCRIBED FIXED LOCATION. ALL FIELDS FOR UNAVAILABLE QUARTERS MUST BE ZERO/BLANK FIELDS. THE LOCATION OF A SPECIFIC QUARTER'S DATA MUST NEVER BE CHANGED. OBTAIN FILE FROM DAVID RILEY.)

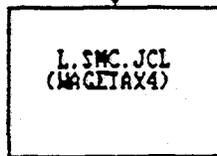




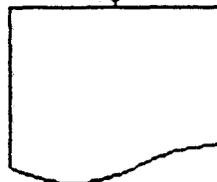
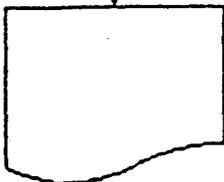
COMPUTES POTENTIAL UNDERPAID TAXES FOR EACH EMPLOYER NOT EXCLUDING OUT-OF-STATE WAGES, AND PRINT UNDERPAYMENT REPORTS.



DETERMINE EMPLOYERS WHO POTENTIALLY PAID TAXES ON EXCESS WAGES.



COUNT # OF EMPLOYERS IN VARIOUS RANGES OF POTENTIAL UNDERPAYMENTS.



Y. PB, SMC, WAGES, JUNE2288

