

BRIEFLY...

Highlights of Report Number: 06-03-005-03-315, a report to the Assistant Secretary, Employment and Training Administration. March 31, 2003.

WHY READ THE REPORT

The Unemployment Insurance (UI) program is the Department of Labor's largest income maintenance program. The multibillion-dollar program, started 65 years ago as a Federal-state partnership, provides benefits to workers who have lost their jobs through no fault of their own. While State Workforce Agencies administer the UI program, the Employment and Training Administration (ETA) oversees the Unemployment Trust Fund (UTF). The Internal Revenue Service (IRS) charges the UTF for collecting employers' monthly UI payments and performing related activities. For the past 15 years, the OIG has reported problems with the amount of costs that the IRS charges to administer the UTF.

WHY OIG CONDUCTED THE AUDIT

In 1999, the OIG reported that the IRS did not have a cost accounting system to capture actual costs of its UTF-related work. OIG also found that IRS overcharged the UTF \$48 million during a 3-year period. While IRS returned the overcharges to the UTF, the agency did not resolve the issues regarding its UTF charging process. Consequently, OIG conducted a follow-up audit of the IRS process for identifying administrative costs charged to the UTF. The audit covered IRS administrative charges to the UTF from October 1, 1998, through September 30, 2002 (FYs 1999-2002).

READ THE FULL REPORT

<http://www.oig.dol.gov/public/reports/oa/2003/06-03-005-03-315.pdf>

To view the report, including the scope, methodology, and full agency response, click on the link above.

MARCH 2003

CHANGES IN IRS COST ACCOUNTING COULD SAVE UNEMPLOYMENT TRUST FUND MILLIONS OF DOLLARS

WHAT THE OIG FOUND

Key findings from our audit include:

- IRS charged almost \$300 million in administrative costs to the UTF without adequate support documentation.
- IRS has a complex system for collecting and reporting UTF taxes, involving multiple cost centers. If IRS used a method based on the percent of revenue received, the agency would have charged the UTF approximately \$174 million less.

WHAT OIG RECOMMENDED

We recommended that ETA:

- Work with the IRS to adopt an alternative method to allocate administrative costs to the UTF. An example of an alternative method would be percent-of-revenue received.
- Develop a Memorandum of Agreement with IRS to ensure consistent application of the alternative methodology.
- Request the IRS to reimburse the UTF \$118 million (\$174 million minus \$56 million that IRS already paid back) in unsupported cost estimates it charged to the fund.

After our fieldwork on the audit ended (December 31, 2002), the IRS adjusted its FY 2002 administrative charges to the UTF. IRS submitted documentation showing administrative costs of \$32 million instead of more than \$88.1 million it had originally charged to the UTF. The new figure reflects the IRS using the percent-of-revenue received method which it adopted beginning in FY 2003.