

## BRIEFLY...

September 13, 2017

### ETA SHOULD DO MORE TO HELP STATES CURTAIL UNEMPLOYMENT INSURANCE TAX AVOIDANCE PRACTICES

#### WHY OIG CONDUCTED THE AUDIT

In 2000, a DOL-commissioned study estimated states lose \$200 million in Unemployment Insurance (UI) tax receipts annually due to employers misclassifying workers as contractors. In 2014, states reported employers owed \$31 million in additional taxes based on the states' State Unemployment Tax Act (SUTA) "dumping" investigations. SUTA dumping occurs when an employer avoids paying higher taxes by inappropriately transferring all or some of its employees to a new or existing employer with a lower UI tax rate.

The federal-state UI program offers eligible claimants benefits that are primarily funded by a SUTA tax on employers. Taxes are deposited into the Unemployment Trust Fund (UTF) of the federal Treasury; therefore, ensuring employers pay the appropriate tax is a key factor in helping to maintain the solvency of the UTF.

#### WHAT OIG DID

We conducted this performance audit to determine the following:

Did ETA provide adequate oversight to assist states' efforts to curtail SUTA tax avoidance practices?

In addition, we addressed questions raised by the Senate Committee on Health, Education, Labor and Pensions regarding ETA's award of \$10.2 million to 19 states to implement or improve worker misclassification detection and enforcement initiatives.

#### READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:  
<http://www.oig.dol.gov/public/reports/oa/2017/04-17-001-03-315.pdf>.

#### WHAT OIG FOUND

ETA did not provide adequate oversight to assist states' efforts to curtail SUTA tax avoidance practices. We conducted a nationwide survey that revealed states desired additional training opportunities and access to best practice information. The survey results also showed the states reported as being most effective in detecting tax avoidance schemes often shared common attributes, such as formal training, a statewide task force, and effective use of SUTA dumping detection systems.

ETA did not adequately monitor state operations for identifying SUTA dumping. Six of 53 State Workforce Agencies (states) reported no findings of SUTA dumping during our audit period (October 1, 2012, through March 31, 2015). ETA considered these states to be outliers, but had done little to help them improve their performance. Furthermore, of the 47 states that did report findings, 23 could not adequately support the results they reported. Accurate data is needed to enable ETA to better identify and provide assistance to low-performing states.

In September 2014, ETA awarded grants to 19 states, totaling \$10.2 million, to implement or improve worker misclassification detection and enforcement initiatives. Regarding the Senate Committee's questions about the \$10.2 million in supplemental funding, we found states used the funds to improve technology, increase audit staff, and conduct community outreach. ETA required states to provide the specific measurable improvements they expected to achieve from their proposed initiatives. ETA also used improvements in the Effective Audit Measure (EAM) to assess the impact of the initiatives. The EAM is a measure ETA uses to evaluate state UI audit programs, including worker misclassification detection. ETA initially limited its oversight of the supplemental funds to receipt and review of quarterly financial reports. In September 2015, ETA began requiring states to submit a narrative progress report, which has improved information available to evaluate fund expenditures. Use of periodic on-site or desk reviews could further improve ETA's monitoring of supplemental budget funds.

#### WHAT OIG RECOMMENDED

We made four recommendations to the Deputy Assistant Secretary for Employment and Training to increase training opportunities, share best practices, and improve controls over state reporting.

ETA generally agreed with our recommendations.