



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

*Collection of Delinquent Unemployment Taxes
and Reimbursements*

*Unemployment Insurance Agency
Department of Licensing and Regulatory Affairs*

Report Number:
641-0316-11

Released:
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The Unemployment Insurance Agency's (UIA's) primary responsibility is to collect State unemployment taxes and reimbursements from employers and pay State and federal unemployment insurance (UI) benefits to eligible unemployed persons. In fiscal years 2008-09 and 2009-10, UIA collected unemployment taxes and reimbursements totaling \$3.0 billion from Michigan employers, which included \$94.3 million in delinquent taxes and reimbursements. As of December 31, 2010, UIA's records identified approximately \$394.5 million in delinquent taxes, interest, and penalties, of which UIA estimated up to \$252.3 million was collectible.

Audit Objective:

To assess the effectiveness and efficiency of UIA's efforts to maximize its collection of delinquent unemployment taxes and reimbursements.

Audit Conclusion:

We concluded that UIA's efforts to maximize its collection of delinquent unemployment taxes and reimbursements were neither effective nor efficient. We noted four material conditions (Findings 1 through 4) and two reportable conditions (Findings 5 and 6).

Material Conditions:

UIA's Collections Unit (CU) and Tax Enforcement Unit (TEU) did not initiate sufficient and timely efforts to collect delinquent State Unemployment Tax Act (SUTA) taxes from contributing employers. As a result, CU and TEU likely missed opportunities for significant collections of delinquent SUTA taxes (Finding 1).

CU did not determine if delinquent contributing employers owned real property before CU filed real property liens against the employers. Also, CU did not have controls to verify that county Register of Deeds offices promptly recorded UIA's liens and lien discharges and that CU documented the lien recording and discharge information in UIA's records. As a result, CU inefficiently used significant collection resources filing and discharging liens that provided limited value to its collections process. Also, UIA could not ensure that it promptly secured its interest in delinquent employers' real property and promptly unencumbered employers' real property to avoid unnecessarily restricting the property's disposition (Finding 2).

UIA did not use available data and data analysis resources to proactively identify and investigate employers potentially involved in SUTA dumping, potentially misclassifying some or all of their

employees as independent contractors, in bankruptcy, or not registering with UIA. As a result, it is likely that UIA limited its SUTA tax collections and its operational efficiency, which negatively impacted the solvency of the Unemployment Compensation Fund (Finding 3).

UIA's Tax Office did not timely initiate actions affecting contributing employers' SUTA tax accounts. Also, UIA's Tax Office did not ensure that UIA's master employer files contained up-to-date information. These conditions likely resulted in substantial losses of SUTA tax collections and in significant processing inefficiencies (Finding 4).

Reportable Conditions:

CU did not effectively determine if employers remained in business before estimating and attempting to collect employers' unpaid SUTA taxes. Also, CU inaccurately estimated employers' unpaid SUTA taxes using the employers' gross wages rather than taxable wages. As a result, CU likely incurred significant collection costs while pursuing estimated SUTA taxes from employers with no liability for them. Also, CU's estimation methodology significantly overstated employers' SUTA taxes owed and the corresponding liens it placed on the employers' real and personal property (Finding 5).

UIA did not ensure that applicable reimbursing employers provided UIA with security collateral. As a result, our review identified that UIA lost otherwise collectible reimbursement payments and likely will incur additional losses in the future (Finding 6).

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Agency Response:

Our audit report contains 6 findings and 9 corresponding recommendations. UIA's preliminary response indicates that it agrees with 7 recommendations and partially agrees with 2 recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General