



**New Jersey State Legislature
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Office of the State Auditor**

**Department of Labor and Workforce Development
Unemployment Insurance Contribution Revenue**

July 1, 2010 to December 31, 2012

**Stephen M. Eells
State Auditor**

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Enclosed is our report on the audit of the Department of Labor and Workforce Development, Unemployment Insurance Contribution Revenue for the period of July 1, 2010 to December 31, 2012. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink that reads "Stephen M. Eells".

Stephen M. Eells
State Auditor
December 31, 2013

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Scope

We have completed an audit of the Department of Labor and Workforce Development, Unemployment Insurance Contribution Revenue for the period July 1, 2010 to December 31, 2012. This revenue is accounted for in the Unemployment Compensation Fund. In addition, we evaluated select application controls related to the processing of employers' quarterly contribution reports and payments including those over transaction processing integrity and data security.

Annual Unemployment Compensation Fund contribution revenue for fiscal years 2011 and 2012 was \$2.5 billion and \$2.8 billion, respectively.

Objectives

The objectives of our audit were to assess the adequacy of the Unemployment Insurance (UI) contribution revenue collection and recording processes and select application controls over transaction processing integrity and data security within the Employer Accounts System (EAS).

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, the administrative code, and policies of the Unemployment Insurance program. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our sample testing of revenue transactions. We also interviewed agency personnel to obtain an understanding of the program, EAS processes, and internal controls.

A nonstatistical sampling approach was used. Our samples of revenue transactions were designed to provide conclusions on our audit objectives, as well as internal controls and compliance. Transactions were both randomly and judgmentally selected for testing.

Conclusions

We found the UI contribution revenue collection and recording processes were adequate. We also found select application controls over transaction processing integrity and data security within the EAS were adequate. In making these determinations, we noted state vendors with unpaid contribution liabilities, quarterly reporting deficiencies, the lack of support for relief from charges, inadequate monitoring of the cycle billing process and system access, and other matters meriting management's attention.

Background

Unemployment Insurance (UI) contributions are paid based on periodic reports submitted by employers in accordance with the N.J.S.A. 43:21-14. Employers must file an “Employer’s Quarterly Report” on Form NJ-927 which lists total wages paid, total taxable wages, and contributions due from the employer and their employees. Employers must also file an “Employer Report of Wages Paid” on Form WR-30 which lists each employee by name, social security number, gross wages paid for the quarter, and the number of base weeks worked during the quarter. The NJ-927 is the basis for UI contribution remittances, while the WR-30 is used in calculating unemployment benefit payments. Reports and UI contribution remittances are electronically submitted to the Department of the Treasury, Division of Revenue and Enterprise Services (DORES). DORES electronically transmits the report and payment information to the Department of Labor and Workforce Development (DOLWD) where the information is captured by the Employer Accounts System (EAS), the tax revenue system of the DOLWD. The major functions of the EAS are: processing of employers’ quarterly contribution reports and remittances, maintaining employer accounts, assessing employers, and calculating employer experience rates.

An employer’s contribution rate is calculated using the reserve ratio method. Cumulative UI contributions less cumulative charges for unemployment benefit claims determine the employer’s reserve balance. The reserve balance is divided by their average annual taxable wages paid for the last three or five years (whichever is greater) to arrive at their reserve ratio. The reserve ratio determines the employer’s contribution rate based on the experience rating tax table, as set forth in N.J.S.A. 43:21-7. Employers’ UI contributions are made based on their rate. The employee contribution rate is set forth in N.J.S.A. 43:21-7 at 0.3825 percent. UI contributions for both employer and employee are calculated on the employee’s first \$29,600, \$30,300, and \$30,900 of wages in calendar years 2011, 2012, and 2013, respectively, per N.J.A.C. 12:15-1.3. Select employers (government and non-profit) may pay their UI contributions on a reimbursable basis, paying dollar-for-dollar for all unemployment benefit claims associated with their account. These employers are still responsible for remitting the employees’ portion of UI contributions via the NJ-927.

State Vendors' Contribution Liabilities

State vendors have unpaid unemployment insurance contributions.

Vendors paid for goods or services provided to the state had unpaid UI contributions. We tested 170 vendors that owed a total of \$36.7 million in UI contributions and penalties and interest as of June 2013; \$32.4 million was from December 2011 and prior. These vendors were paid a total of \$78.5 million in fiscal year 2011 and \$32.8 million in fiscal year 2012. We noted one vendor owed \$1.96 million from December 2011 and was paid a total of \$5.6 million in fiscal years 2011 and 2012. This vendor owed \$2.49 million as of June 2013. We also noted another vendor that owed \$1.43 million from December 2011 and was paid a total of \$1.95 million in fiscal years 2011 and 2012. This vendor owed \$1.47 million as of June 2013.

The New Jersey Comprehensive Financial System (NJCFS) Garnishment Process within the Department of the Treasury withholds payments to vendors that owe the state monies. The DOLWD does not take advantage of this program.

Recommendation

We recommend the department identify state vendors with UI underpayments and submit them to the Department of the Treasury for inclusion in the NJCFS Garnishment Process.



Quarterly Reporting

Wages reported on the NJ-927 and the WR-30 should be the same for non-governmental employers.

Not all non-governmental employers are reporting wages paid correctly on their WR-30 and NJ-927 quarterly reports in compliance with state statute and administrative code. N.J.S.A. 43:21-14 states wages paid should be reported on a WR-30. N.J.A.C. 12:16-5.3 states wages paid should be reported on a NJ-927. The amount reported on both reports should therefore agree. Inconsistency in amounts reported could result in the underpayment or overpayment of UI contributions.

There is no certainty of UI contribution correctness without a review of an employer's payroll and accounting records. The Division of Employer Accounts, Audits and Field Services section performs audits throughout the year. While performing audits, they compare the NJ-927 and WR-30 wages to the employer's records. They identified underpaid contributions totaling approximately \$5.5 million during fiscal years 2011 and 2012. A separate departmental unit performs a quarterly comparative analysis of all NJ-927s and WR-30s to identify deficient employer NJ-927s for further review. The results of this activity are not maintained, hence, were not available for our review.

We sampled 127 non-governmental employers and compared the wages paid reported on the WR-30 to the NJ-927 for the four quarters of calendar year 2012. We found 19 employers (14.96%) where the wages paid reported on the two reports did not agree. Five employers reported more wages paid on the WR-30 than on the NJ-927, totaling \$65,325. This could result in the underpayment of contributions. Eleven employers reported more wages paid on the NJ-927 than on the WR-30, totaling \$205,120. An additional four employers never submitted a WR-30 or submitted it blank for a combined five quarters. The total amount of wages submitted on the NJ-927s for these employers and quarters was \$172,984. Differences where the NJ-927 wages are higher could result in an overpayment of contributions and an underpayment of unemployment benefits. One employer had more wages reported once on the WR-30 and once on the NJ-927 during two separate reporting periods.

In addition, we evaluated a sample from all employers, including governmental, for the reasonableness of excess wages reported on the NJ-927. For calendar year 2012, UI contributions are paid on wages up to \$30,300. Amounts remitted from employers consist of employee withholdings and employers contributions. Employers report the amount of excess wages (amounts over \$30,300) on their NJ-927. Utilizing the employers' WR-30 reports, we recalculated the excess wages and compared them to the NJ-927 amount for the 129 employers in our sample. We found 14 employers (10.85%) where one or more quarters did not match our calculation. One employer's excess wages differed from our calculation by \$1.8 million for calendar year 2012. We referred this matter to division personnel for investigation. The investigation noted that this employer has incorrectly calculated excess wages for 26 years. The division determined the miscalculation of excess wages for a four-year period for the worker contributions (employee withholdings) resulted in an underpayment totaling \$31,000 and interest of \$5,600. This employer has since corrected their reports and paid their contributions and interest.

We performed an additional comparison of wages reported on the NJ-927 and the WR-30 for employers where former employees filed for unemployment benefits through an affidavit of employment and wages. An individual filing for benefits can utilize an affidavit when their wages are not available or have not yet been reported on a WR-30. We noted a difference in total wages reported between the WR-30 and the NJ-927 for the 186 quarters tested which included affidavits of \$6.8 million.

Recommendation

We recommend the department continues working to achieve compliance from all employers in reporting correct wages paid on both reports. Random testing and follow-up on the calculation of excess wages may increase the reliability of information.



Relief from Charges

Support for employers' relief from benefit charges is not effectively documented.

In accordance with N.J.A.C. 12:17-21.1 et. seq., when an individual claims unemployment benefits, their former employer is charged for benefit payments made to them, affecting the calculated employer's contribution rate. Contributory employers may request relief from charges, nullifying any effect on their contribution rate, through completion of the "Notice to Employer of Monetary Determination and Request for Separation Information" form. To meet the criteria for the relief from charges, the claimant's separation from employment must have been from a voluntarily quit, misconduct, or the claimant refused suitable work while collecting benefits. The reason for a relief from charge and the receipt of required forms should be documented as remarks in the unemployment benefit payment system by the program personnel. The remarks conversation provides an electronic record of these items as part of the unemployment benefit payment system's audit trail that all department personnel can view. Department policy is that paper documentation should be maintained at local offices and therefore is not available to all department personnel. Supervisory approval is not required and a periodic review of these transactions is not performed.

We selected a random sample of 50 relief from charge transactions during fiscal years 2011 and 2012 and found that 13 (26%) were not supported with a remark in the system. We expanded our testing and reviewed 25 random transactions for each of the top 11 operators who relieved charges. This disclosed that 158 of the 275 transactions (57.45%) were not documented with a remark in the system. Consequently, we could not readily determine if the charges were relieved in accordance with administrative code. As a result, the employers' contribution rates and remittances may be incorrect.

Recommendation

We recommend program personnel document the reason and verify receipt of the required form when relieving charges in the unemployment benefit payment system. Supervisors should periodically review these transactions for propriety.



Cycle Billing and System Access Monitoring

A periodic review of cycle bills and system access should be performed to ensure the processes are operating as intended and access is in accordance with job functions.

Cycle bills are not being issued to all employers that have unpaid UI contributions. A cycle bill is an employer's account balance due statement sent out annually to any employer owing UI contributions unless the employer is in bankruptcy status or has a current bill suppression date. It is department policy to annually run a program within the EAS to determine the population of

employers that meet the criteria to receive a cycle bill. This population is divided into a weekly number of bills that will be subject to release. Each week prior to the release of the scheduled bills, the EAS ensures the employers still meet the criteria. Our review of this process disclosed employers with a non-current bill suppression date in the Suppress Cycle Bills Table were not receiving a cycle bill. This resulted in 7,425 bills not being issued when scheduled.

Also, our review of EAS access levels noted four Database Administrators (DBAs) had user access. User access allows for the entry of transactions within this system. DBAs are responsible for developing and maintaining the EAS. CobiT standards require proper segregation of duties to reduce the possibility of individuals compromising critical information. DBAs possessing user access to a system they maintain creates an opportunity for unauthorized modification of information. User access is not required for their job functions.

Additionally, we reviewed the access of employees with the capability to refund or adjust contributions, adjust interest, and abate penalties within the EAS. There were 20 individuals that had more access than required for their job functions.

After we brought these issues to the department's attention, the system logic for cycle bills was corrected and 2,683 of the 7,425 bills have been scheduled for issuance, DBA access was changed to view only, and access for the 20 individuals changed to correspond to their job functions.

Recommendation

We recommend the department institute proper monitoring of all system processes to ensure they are operating as intended, and of all access levels to ensure individual access levels are proper for their job functions.



Affidavits

Claimants' wages reported on affidavits do not equal employer reported wages.

Employers are required by state statute to file a quarterly "Employer Report of Wages Paid" (WR-30), which is the basis for determining unemployment benefit payments. Individuals must file a "Claimant's Affidavit of Employment and Wages" (affidavit) when their wages are not included on this report upon filing an unemployment benefit claim. Employers are also required to file an "Employer's Quarterly Report" (NJ-927) which lists current UI contributions due. Information supplied on these reports is expected to be accurate.

We selected a sample of 100 individuals who certified wages for one or more quarters through an affidavit and we reviewed the subsequently filed WR-30 reports, if available, for the given quarters to verify the accuracy of the affidavit. Our sample encompassed 211 quarters of wages

reported on affidavits. Twenty-five WR-30s were not received or were blank upon receipt reducing our sample to 186 quarters where employers filed completed WR-30s after the affidavit was taken. Seventy-nine quarters (42%) had amounts certified via affidavit that did not agree to the reported WR-30 wages. Thirty-six of these quarters, representing 16 individuals, had subsequent WR-30s filed that reported no wages paid or weeks worked for these individuals. The affidavits for wages filed for the 36 quarters totaled \$174,141. These wages were utilized to pay benefits. Twenty-two affidavits reported more wages than the WR-30 by \$50,000, while 21 affidavits reported less wages than the WR-30 by \$32,300. Overstating or understating wages earned via affidavit could cause overpayments or underpayments of benefits when the claimant does not receive the maximum allowed benefit.

The system is designed to have a compensating control that extracts wage data received outside of the quarterly reporting period and compares it to wage data within the unemployment benefit payment system to ensure that wages certified through an affidavit are accurate. This control is not operating as intended and the department is pursuing a remedy. As a result, incorrect claimant benefit payments and employer UI contributions may have occurred.

Recommendation

We recommend that the department continue their pursuit of remedying the system.



Miscellaneous Revenue Processing

Non-quarterly unemployment remittances should be sent directly to the Division of Revenue and Enterprise Services (DORES).

Non-quarterly unemployment remittances are, at times, sent to the DOLWD instead of the DORES. These receipts must then be forwarded to the DORES in accordance with the Reorganization Plan No. 003-1998 which transferred reports, receipts, and correspondence processing functions from DOLWD to the DORES, formerly the Division of Revenue.

We performed cash counts on three separate dates and noted checks on hand totaling \$526,362. Once the DOLWD receives checks they are either picked up by a DORES courier or hand-carried by a DOLWD employee to the DORES for processing. This process is inefficient and susceptible to impropriety.

Additionally, DOLWD field auditors are accepting receipts for changes they make to the NJ-927 as a result of the audit. Obtaining payment is a requirement of the United States Department of Labor Tax Performance System uniform standard of quality. Although this process ensures the DOLWD is receiving amounts due, there is an increased risk of impropriety associated with the manual handling of checks since supervisory approval and finalization of these changes may not occur until after the auditor has left the audit site. These checks must also be forwarded to the DORES for processing.

Sending payments directly to the DORES would streamline the process, fulfill the intention of the reorganization plan, and reduce the risk of impropriety.

Recommendation

We recommend that all unemployment remittances be submitted electronically or sent directly to the DORES.



Federal Reporting

Audit activity reported to the USDOL includes non-UI statistics.

The U.S. Department of Labor (USDOL) requires quarterly submission of the "Contribution Operations Report" ETA-581. The ETA-581 provides a measurement of the effectiveness of each states unemployment program. There are several sections to the report; statistical information on the number of employers and employees, receivable information for employers, and audit activity.

Audit activity statistics provided on the report include the number of audits, total wages added, audit hours, amount of total wages, taxable wages, and contributions underreported and overreported for the period audited. These statistics and dollars reported in the audit activity should strictly be Unemployment Insurance (UI) figures. The audit activity the department reports to the USDOL includes audit results from Unemployment, Disability, and Family Leave Insurances, Workforce Development, and Health Care Subsidy Funds. The audit activity is overstated by the results generated from the non-UI data. The audit results for UI are not maintained separately. A request has been made of the department's programmers to separate the data so the report can be submitted correctly.

Recommendation

We recommend the department continue to pursue efforts to provide the correct information to the USDOL.





State of New Jersey

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December 31, 2013

Mr. Stephen M. Eells, State Auditor
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125 South Warren Street
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Dear Mr. Eells:

The New Jersey Department of Labor and Workforce Development (LWD) is in receipt of your agency's draft report on the Unemployment Insurance Contribution Revenue. The report covers the period of July 1, 2010 to December 31, 2012.

The following is LWD's response to the findings in the draft report:

Finding - State vendors have unpaid unemployment insurance contributions.

LWD Response:

LWD's Division of Employer Accounts has prepared a service request that will generate a listing of all vendors with unpaid or underpaid contributions. This list will then be submitted to the Department of Treasury for inclusion in the New Jersey Comprehensive Financial System (NJCFIS) garnishment process.

Finding - Wages reported on the NJ-927 and the WR-30 should be the same for non-governmental employers.

LWD Response:

LWD's Division of Employer Accounts is in the process of working on a query to randomly review the quarterly reports, WR-30 and 927, to identify employers with variances between the total wages reported on each report. The variances will be reviewed by Employer Accounts' Office Audits section and appropriate actions will be taken.

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Employer Accounts is also developing a query to review quarterly 927 reports for potential miscalculations of excess wages. The Office Audits section will review the report and appropriate action will be taken.

Finding - Support for employers' relief from benefit charges is not documented.

LWD Response:

Requests for non-charging are received from employers either through UI SIDES or upon return of a BC-3E or BC-28 request for separation information form. When an employer questions charges against their account and responds with separation information that is potentially disqualifying, the claim is reviewed to see if a non-monetary determination needs to be entered (if so a fact-finding hearing is scheduled). If the claimant is disqualified on a Voluntary Quit/Misconduct/Refusal of Suitable Work (VQ/MC/RSW) issue, the non-charging for the corresponding employer is automatically entered by LOOPS. If the issue does not apply any longer (MC or VQ tolled out, etc.) then non-charging would be entered on the claim by the examiner via a separate LOOPS transaction.

Relief from charges currently has an audit trail in LOOPS that allows for tracking of who relieved the charges, the effective dates for the relief and the issue involved. This is found in LOOPS A200/16/14. Remarks on the claim may provide information that non-charging was completed, but this audit trail in the LOOPS history segment currently tracks any non-charging that was completed.

To enhance the tracking of the non-charging of UI benefits, the Division of Unemployment Insurance can change the non-charge entry screen (LOOPS D-155) to include the source document during entry. This will provide information on how the request for non-charge of benefits was submitted. Another option is to require the entry of a claim remark using LOOPS transaction A-300 each time that an employer is granted non-charging of benefits. Both options require an IT service change request.

LWD will complete the above option that will take less time to implement.

Finding - A periodic review of cycle bills and system access should be performed to ensure the processes are operating as intended and access is in accordance with job functions.

LWD Response:

LWD has addressed the issues regarding the cycle billing and moved into production the programing logic to correct this issue on July 26, 2013. In regards to the access level on September 27, 2013, corrections to access levels in the Employer Accounts System were completed.

Finding - Claimants' wages reported on affidavits do not equal employer reported wages.

LWD Response:

Staff in the Unemployment Insurance Call Center reviews all employment data submitted by claimants during claim filing. When employer data is missing or disputed, the Call Center agent sends a request for wage information to the employer and establishes a monetary appointment for the claimant at least ten working days into the future. If the monetary information is not returned by the employer, an affidavit of wages is taken from the claimant based on pay stubs and/or W-2 information submitted as proof of employment.

Past history indicates that Division of UI required a review of all monetary determinations or redeterminations involving a claimant affidavit when the employer submitted form WR-30 within ten days of the change. Unfortunately, there was an issue with the automatic review process and it was discontinued.

LWD plans to reactivate this automated process and increase the waiting period to 15 days (five days longer than the requested response period) to allow ample time to receive the documents. Staff will review all WR-30 submissions received within 15 days and make any adjustments to the monetary. However, any wage information received after the 15-day period is considered late and staff will not make any monetary changes. The employer will have the option to file an administrative appeal explaining why the wage information was not furnished timely.

UI Systems staff will prepare a service request and work with the Office of Information Technology to reactivate this process.

Finding - Non-quarterly unemployment remittances should be sent directly to the Division of Revenue and Enterprise Services (DORES).

LWD Response:

The Division of Employer Accounts will work with the Office of Internal Audit to develop a computer generated receipt that can be given to the employer and also submitted with the check. It should also be noted the Division of Employer Accounts completes verification audits, which re-audit employers to validate that the original 927 audit was accurate.

Finding - Audit activity reported to the USDOL includes Non-UI statistics.

LWD Response:

The Division of Employer Accounts became aware that the ETA-581 report data generated from the audit application included UI, Temporary Disability Insurance (TDI), Workforce (WF) and Family Leave Insurance (FLI) contributions, when the Department's Trust Fund Accounting Division began a shared cost analysis in June of 2013.

When the problem was confirmed, the Division of Employer Accounts immediately reached out to the regional USDOL office to apprise them of the problem. At the same time, the division also requested the Division of Information Technology to update the audit application logic so that only UI contributions are reported in the quarterly ETA-581 report. The logic also provides a breakdown of contributions for UI, TDI, WF, and FLI for contributions under and over reported.

The revised logic has been moved into production and amended ETA-581 reports have been submitted to the national office for the past six quarters.

If you have any questions or need additional information please contact Jerry Calamia, Director of Internal Audit at (609) 292-1885.

Sincerely,



Harold J. Wirths
Commissioner

B12-003(01)

c: Aaron Fichtner
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