

Audit Highlights



Highlights of performance audit report on the Employment Security Division released on March 29, 2021.

Legislative Auditor report # LA22-05.

Background

The Employment Security Division (Division) is a division of the Department of Employment, Training and Rehabilitation. The 1937 Nevada State Legislature enacted the Unemployment Compensation Law requiring the compulsory setting aside of financial reserves to provide temporary partial replacement of income to unemployed workers. The Division's mission is to empower a vibrant labor market in Nevada by creating business and worker connections with high-quality demand-driven services.

The Division is responsible for the administration of the Unemployment Insurance program and numerous state and federally funded workforce investment programs that seek to connect employers with a skilled and qualified workforce.

In fiscal year 2019, the Division had three budget accounts with revenues and expenditures of over \$93 million. The Division is primarily funded through federal grants and allowances, which amounted to 69.5% of revenues in fiscal year 2019. The Division headquarters is located in Carson City, with a Southern Nevada office in Las Vegas and career centers located in Elko, Ely, Fallon, Henderson, North Las Vegas, Reno, Sparks, and Winnemucca.

Purpose of Audit

The purpose of this audit was to evaluate certain controls over the collection of unemployment taxes from employers. The scope of our audit included a review of tax overpayments and refunds during calendar years 2018 and 2019. We also reviewed past due state unemployment tax receivables as of November 30, 2018, and related collection activities during prior periods.

Audit Recommendations

This audit report contains 11 recommendations to improve administrative controls over overpayment activities and collection of delinquent state unemployment taxes.

The Division accepted the 11 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on June 22, 2021. In addition, the 6-month report on the status of audit recommendations is due on December 22, 2021.

Employment Security Division

Department of Employment, Training and Rehabilitation

Summary

The Employment Security Division (Division) did not effectively administer certain aspects of Nevada's state unemployment taxes (SUTA) from employers. Employer accounts with overpayments totaling over \$25 million are being treated inconsistently, with some overpayments rolling forward and others being removed from accounts after 3 years. Additionally, the Division could improve collection of past due SUTA from employers. We found Division collection activities were often untimely and monthly collection reports were incomplete, incorrect, or not used effectively. Furthermore, the Division does not always document collection activities completed on accounts and does not use the Debt Offset Program to assist in the collection of delinquent SUTA. With over \$26 million in outstanding SUTA as of November 2018, enhancements to the Division's collection process should be made.

Key Findings

The Division's refund practices result in inequitable refund conditions for Nevada employers. The UINV system expires some account overpayments after 3 years, consistent with statute and previous processes, while others roll forward each quarter. Active employer accounts are not subject to credit expiration and employers may be allowed to use or request a refund indefinitely, even though statute requires refunds be requested by employers no later than 3 years after the overpayment was made. The Division did not process overpayments in this manner until the UINV system was implemented. In October 2018, almost 17,000 employer accounts had over \$25 million in overpayments. (page 6)

The Division can improve the effectiveness of its operations and administrative controls over the collection of accounts receivable. Collection activities on delinquent SUTA employer accounts were not always performed, and sometimes the Division did not perform any collection activities when employers failed to pay taxes due. As of November 2018, there were over \$26 million in outstanding SUTA due from over 10,000 employer accounts. (page 7)

The Division has not established guidelines for the timing of collection activities, other than system generated employer billing statements. Standard collection activities include sending billing statements, conducting warning calls, issuing pre-demand and demand letters, entering into payment agreements, and generating judgements and notices to withhold. Inconsistent and inadequate collection processes lead to a wide variation between accounts as to when collection activities occur. Inconsistent collection activity persists because the Division has not determined which collection activities are most successful nor does it prioritize accounts based on payment history, industry, amount, age, or account type, to maximize limited resources. (page 9)

Reports used by the Division's collection unit are not always complete, which delays recoveries. System support staff were not aware of report deficiencies to correct the errors. Additionally, an accounts receivable aging report is not generated by the UINV system. If reports used by the Division are not accurate or reliable, employer accounts may not be detected, collection activities may not begin timely, and delinquent accounts may remain deficient indefinitely. (page 13)

Collection documents are not consistently scanned into UINV by the Division. UINV is the system of record and should be used to track completed collection activities. However, we found documents were often not in the system because policies and procedures have not been properly developed to ensure collections activities are completely documented. (page 14)

The Division is not using the statutorily authorized Debt Offset Program offered by the State Controller to assist in the collection of delinquent SUTA. Debts can be submitted to the Controller exclusively for the offset program. If the Division does not utilize all the collection tools available to it, the probability of collecting delinquent SUTA decreases. (page 15)

Employer accounts with returned billing statements that do not have forwarding addresses are not placed on account hold by the Division. The Division sends approximately 25,000 monthly statements to all employers with any non-zero balance on their account. Account holds suspend mail notifications including monthly statements. This would eliminate mailing of undeliverable statements and reduce some postage costs. (page 15)