REPORT NO. 95-37

THE FLORIDA LEGISLATURE

OFFICE OF PROGRAM POLICY ANALYSIS AND
GOVERNMENT ACCOUNTABILITY

REVIEW OF THE

UNEMPLOYMENT COMPENSATION PROGRAM

ADMINISTERED BY THE

DEPARTMENT OF LABOR AND EMPLOYMENT SECURITY

February 21, 1996

The Office of Program Policy Analysis and Government Accountability was established by the 1994 Florida Legislature to play a major role in reviewing the performance of state agencies under performance-based budgeting and to increase the visibility and usefulness of performance audits. The Office was staffed by transferring the Program Audit Division staff of the Auditor General's Office to the Office of Program Policy Analysis and Government Accountability. The Office is a unit of the Office of the Auditor General but operates independently and reports to the Legislature.

This Office conducts studies and issues a variety of reports, such as policy analyses, justification reviews, program evaluations, and performance audits. These reports provide in-depth analyses of individual state programs and functions. Reports may focus on a wide variety of issues, such as:

- Whether a program is effectively serving its intended purpose;
- Whether a program is operating within current revenue resources;
- Goals, objectives, and performance measures used to monitor and report program accomplishments;
- Structure and design of a program to accomplish its goals and objectives; and
- Alternative methods of providing program services or products.

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John W. Turcotte
Director

The Florida Legislature

OFFICE OF PROGRAM POLICY ANALYSIS AND GOVERNMENT ACCOUNTABILITY

February 21, 1996

The President of the Senate,
the Speaker of the House of Representatives,
and the Legislative Auditing Committee

I have directed that a review be made of the Unemployment Compensation Program administered by the Department of Labor and Employment Security. The results of the audit are presented to you in this report. This review was made as a part of an ongoing program of performance auditing as mandated by Section 11.51(1), Florida Statutes. This review was conducted by Mr. Don Wolf and Ms. Kathryn Bishop under the supervision of Ms. Kathleen Neill.

We wish to express our appreciation to the staff of the Department of Labor and Employment Security for their assistance.

Respectfully yours,

James L. Carpenter
Interim Director

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Report Abstract

- The solvency of the Unemployment Compensation Trust Fund has declined since 1989; thus, the Fund's capacity may be inadequate to finance unemployment benefits if a severe recession developed.

- As part of its monitoring of program performance, the Department has identified a statutory change that could reduce benefit payment errors and reduce employer bookkeeping and reporting requirements.

- The Department's manual processing of employment taxes is labor intensive and not cost-effective. Contracting this function to another entity could result in approximate savings of between $300,000 and $1 million annually.

Purpose

We reviewed the Unemployment Compensation (UC) Program of the Department of Labor and Employment Security (DLES) and examined:

- The solvency of the UC Trust Fund;

- How the Department evaluates and reports on program performance to the Legislature, and uses this information to monitor and improve program performance;

- Alternatives for processing UC tax payments; and

- How the Department collects delinquent taxes from government agencies.

Background

The UC Program in Florida was established as a direct result of the high unemployment experienced during the Great Depression of the 1930s and has been in operation in Florida since 1939. The program provides workers temporary and partial insurance against income loss resulting from unemployment and assists the countercyclical stabilization of the economy during recessions by maintaining workers' purchasing power.

One of the primary functions of the UC Program is to distribute benefit payments to qualified claimants. To receive benefits, claimants must first apply at Department field offices located throughout the state. During calendar year 1994, 285,055 claimants received initial benefits. All qualified claimants received about $707 million in total benefits. Weekly benefits averaged approximately $169 for an average duration of about 15 weeks. Another function of the UC Program is collecting taxes from liable employers. Employers with sufficient payroll history are assigned an earned tax rate, which can vary from 0.1% to 5.4% of the first $7,000 of each employee's wages. [1]

Findings

SOLVENCY OF THE UC TRUST FUND HAS DECLINED
(See Pages 7-14)

Ideally, the UC tax structure should ensure that the Trust Fund is adequately funded to pay current benefits and to accumulate sufficient funds to pay benefits during economic recessions. The capacity of the Unemployment Compensation Trust Fund to pay for benefit payments has declined between 1989 and 1994. The Fund's reserves in 1994 had the capacity to pay benefits for less than one year in a severe recession, while in 1989 the Fund's reserves

[1] Employers voluntarily participating in the Short-Term Compensation Program are charged an additional 1%, which could bring the employers tax to 6.4% in accordance with s. 443.111(6), F.S.

could have lasted almost one and one-half years. In addition, Florida's workforce has increased since 1989, but the UC Trust Fund balance can support fewer unemployed workers. Thus, despite a 1994 Trust Fund balance of $1.6 billion, solvency measures indicate the Fund's capacity may be inadequate to finance the benefits that would have to be paid if a severe recession developed.

Update to UC Trust Fund Balance:
The Department reported that, as of December 31, 1995, Florida's US Trust Fund balance was $1.8 billion. The solvency measures related to the 1995 UC Trust Fund balance are not yet available from the U.S. Department of Labor.

REPORTING ON PROGRAM PERFORMANCE COULD BE IMPROVED (See Pages 15-18)

The Department has established goals, objectives, and performance measures for the UC Program. Pursuant to federal requirements, the Department reports program statistics to the federal government. However, it provides the Legislature and the citizens of Florida with limited information about program performance and accomplishment of its goals. As a part of monitoring program performance, the Department has identified a statutory change that could reduce benefit payment errors and reduce employer bookkeeping and reporting requirements.

PROCESSING OF TAXES IS LABOR INTENSIVE AND IS NOT COST-EFFECTIVE (See Pages 19-22)

The Department's manual processing of unemployment taxes is labor intensive and is not the most cost-effective approach to processing these monies. The Department is planning to redesign this process and is considering the purchase of equipment to automate its tax processing activities. Contracting the processing of taxes could be a cost-effective alternative to acquiring upgraded technology that may rapidly become obsolete. As of 1994, 13 states have contracted with banks to process unemployment compensation tax remittances. DLES could also consider contracting with the Department of Revenue, which already has the technology for processing revenue and provides such services for other state agencies. By contracting the processing of UC taxes to another entity, we estimate that DLES could save approximately $300,000 in overtime costs and up to $1 million annually, depending on various factors, such as the terms of the contract and whether some positions that currently process taxes are eliminated by the Department.

TAX PAYMENT ENFORCEMENT TOOLS SHOULD BE USED
(See Pages 23-24)

Some state and local government entities are not promptly paying owed UC taxes. The Department has not been using all of the tax collection and enforcement tools provided by statute. In addition, the Department has not been charging state agencies interest on delinquent UC taxes, as authorized by state law.

Recommendations

To ensure the Trust Fund has adequate reserves to pay benefit claims in the event of a severe recession, the Legislature should increase the reserves of the UC Trust Fund by changing how the Trust Fund size is determined. To assist the Legislature in selecting the best method, the Department should modify the data query capabilities of its management information system to assess the tax impact on employers for each option of increasing the reserves of UC Trust Fund.

To give the Legislature a more comprehensive view of how efficiently DLES is administering the UC Program, the Department should include additional measures for each of the program's key functional areas (e.g., benefits, appeals, and taxes) in its next yearly Legislative Budget Request. In addition, the Department should proceed with developing outcome measures for the UC Program such as Trust Fund Solvency in preparation for the requirements of performance based program budgeting.

To reduce benefit payment errors and reduce employer bookkeeping and reporting requirements, the Legislature should amend s. 443.111, F.S., to change the basis of calculating UC benefit payments from weeks worked to high quarter.

To make the processing of taxes more efficient, the Department should consider contracting next fiscal year with the Department of Revenue or issue a request for proposal to contract with private entities such as banks for the processing of tax revenues and other associated activities. When evaluating this option, the Department should consider the following factors: the initial investment cost of equipment along with potential obsolescence of such equipment; operating costs; and controls for accuracy and timely processing of revenue.

To encourage prompt payment of UC taxes, the Department should charge state agencies interest on delinquent UC taxes, as authorized by s. 443.141(1)(a), F.S. The Department should also use all of its collection tools available to collect delinquent taxes from state and local government entities.

Agency Response

(See Pages 29-34)

The Secretary of the Department of Labor and Employment Security agreed that the current balance in the UC Trust Fund is inadequate to pay benefits in a severe economic recession, and supports a general effort to improve the fund's solvency. However, he stated his belief that any changes to the tax rate formula should be deferred until the UC Bureau of Tax completes a thorough analysis of the immediate and long-range effects of options. The Secretary concurred with our remaining recommendations and described actions the Department is taking to address our concerns.

Review of the Unemployment Compensation Program

CHAPTER I Introduction

Purpose and Scope

The Office of Program Policy Analysis and Government Accountability issues reports to provide information the Legislature can use in its oversight of programs and to allocate limited public resources. In this review of the Unemployment Compensation (UC) Program of the Department of Labor and Employment Security (DLES), we examined:

- The solvency of the UC Trust Fund;
- How the Department evaluates and reports on program performance to the Legislature, and uses this information to monitor and improve program performance;
- Alternatives for processing UC tax payments; and
- How the Department collects delinquent taxes from government agencies.

Methodology

This review was made in accordance with generally accepted government auditing standards and accordingly included appropriate performance auditing and evaluation methods. We reviewed appropriate state laws and federal regulations, DLES's Agency Strategic Plan and Legislative Budget Requests, and various reports including a performance audit of the program published by the Office of the Auditor General in 1991. We also interviewed Department managers, Department staff, and staff from unemployment compensation programs in other states. In addition, we conducted a group discussion with representatives from DLES, legislative committees, the business community, and Florida TaxWatch to obtain their views on the current methods for setting UC taxes and funding the UC Trust Fund. The specific methodology used for each of our objectives is contained in Appendix A. We conducted fieldwork from April through August 1995.

CHAPTER II Background

Program Design

The Unemployment Compensation (UC) Program in Florida was established as a direct result of the high unemployment experienced during the Great Depression of the 1930s. The program was created as a federal-state system by the Social Security Act of 1935 (U.S.P.L. 74-271) and has been in operation in Florida since 1939. The program's primary objectives are to give workers temporary and partial insurance against income loss resulting from unemployment and to assist the countercyclical stabilization of the economy during recessions by maintaining workers' purchasing power. These objectives are accomplished by setting aside reserves to be used for the benefit of persons unemployed through no fault of their own.

One of the primary functions of the UC Program is to distribute benefit payments to qualified claimants. To receive benefits, claimants must first apply at Department field offices located throughout the state. Applicants must also meet both monetary and non-monetary eligibility requirements and be registered for employment opportunities. Once they qualify to receive benefits, claimants are required to seek employment and report job search efforts. During calendar year 1994, the Department processed 512,134 initial benefit claims and 285,055 claimants received initial benefit payments. [1] Qualified applicants may receive weekly benefits ranging from $10 to $250 for up to 26 weeks, depending on their length of prior employment and wages earned. Florida claimants received about $707 million in total benefits during calendar year 1994, with individual claimants receiving average weekly benefits of approximately $169 for an average of approximately 15 weeks. [2]

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[1] United States Department of Labor publication, *UI Data Summary*, March 1995. Data for calendar year 1995 was not available as of the publication date of this report.

[2] Ibid.

Another function of the UC Program is collecting taxes from liable employers. Section 443.131(2)(a), F.S., requires that the Florida Department of Labor and Employment Security (DLES) assign new employers a state unemployment tax rate of 2.7% until the new employer establishes a payroll history sufficient to calculate an earned tax rate. This earned tax rate can vary for several reasons from 0.1% to 5.4% of the first $7,000 of each employee's wages. [3] DLES collects the state unemployment tax and transfers it to Florida's account in the federal UC Trust Fund, which is used solely for the payment of benefits. Florida's account in the federal Trust Fund had a balance of approximately $1.6 billion as of December 31, 1994.

The Internal Revenue Service (IRS) charges each liable employer a federal unemployment tax of 6.2% on the first $7,000 of each employee's wages. However, the IRS gives employers a credit of 5.4% for timely reports and payments of state unemployment tax, leaving a net federal unemployment tax of 0.8%. Finally, the IRS collects the federal unemployment tax and deposits it in the federal government's Employment Security Administration Trust Fund, which in turn funds Florida's administrative costs for the Program.

Program Organization

Primary responsibility for administering the UC Program in the Department is assigned to the Division of Unemployment Compensation. The following describes Program activities for each of the Division's organizational units:

- The Bureau of Tax is responsible for determining employer liability for unemployment compensation taxes, collecting taxes and wage reports, and auditing employer wage records;

- The Bureau of Claims and Benefits oversees the processing of claims for unemployment benefits, paying benefits to qualified claimants, issuing

[3] Employers voluntarily participating in the Short-Term Compensation Program are charged an additional 1%, which could bring the employers tax to 6.4% in accordance with s. 443.111(6), F.S.

determinations on claims involving eligibility issues, and preventing and detecting claims fraud;

- The Bureau of Appeals is responsible for holding administrative hearings for appeals of determinations on claims for benefits and employer liability; and

- The Office of the Division Director includes several sections that support the general program. These sections support such activities as automated information systems, quality control, operation of a national telecommunications network for claims, and internal security.

Since 1994, the Division of Labor, Employment and Training has operated Jobs and Benefit Centers. Unemployed workers come to these centers to apply for UC benefits, register with the Job Service Program, and secure employment assistance (e.g., referral to job training programs.) As of September 1995, 118 centers were located across the state.

Program Resources

The UC Program is funded by three state trust funds: the Employment Security Administration Trust Fund, the Unemployment Compensation Trust Fund, and the Special Employment Security Administrative Trust Fund. Monies for the Employment Security Administration Trust Fund are generated from the federal tax on liable employers, which are transferred to the state to finance DLES's costs for administering the UC Program. Monies for the Unemployment Compensation Trust Fund are generated from a state tax on liable employers and are used solely for paying benefits to approved claimants. Monies for the Special Employment Securities Administrative Trust Fund are generated from interest and penalties collected from delinquent UC taxpayers and are used for other program costs not otherwise funded through the Employment Security Administrative Trust Fund. DLES's expenditures for the UC Program totaled $747.7 million, including $694.6 million for UC benefits during fiscal year 1994-95 (see Exhibit 1).

Exhibit 1: Unemployment Compensation Program Expenditures Fiscal Years 1993-94 and 1994-95

	Fiscal Years	
	1993-94	1994-95
Unemployment Compensation Trust Fund [1]	$734,040,944	$694,631,792
Employment Security Administrative Trust Fund [2]	66,298,522	48,876,276
Special Employment Security Administrative Trust Fund	899,078	4,175,551
Total	$801,238,544	$747,683,619

[1] Figure represents regular Unemployment Compensation payments plus adjustments such as interstate UC benefit payments and overpayments; excludes flow through program funds such as Disaster Unemployment Insurance and Ex-servicemen from the Military Program.

[2] In June 1994, 531 positions and funds were transferred to the Division of Labor, Employment Training to augment the Jobs and Benefit Centers.

Source: Florida Department of Labor and Employment Security.

The Division of Unemployment Compensation had 1,554 authorized positions in fiscal year 1994-95. For fiscal year 1995-96 the Department moved 531 of these positions and related funding from DLES's Division of Unemployment Compensation to the Division of Labor, Employment and Training to augment staffing of the newly formed Job and Benefit Centers across the state.

CHAPTER III Findings and Recommendations

Section 1 Unemployment Compensation Tax Structure

Section 443.131(3)(e)1.c., F.S., provides that the Trust Fund balance on December 31 should be between 4% and 5% of the total taxable employer payrolls (e.g., first $7,000 of each employee's wages) for the year ending September 30. If the balance falls below 4%, the Department of Labor and Employment Security (DLES) increases tax rates to replenish the Trust Fund. If the balance rises above 5%, DLES decreases tax rates. DLES last adjusted tax rates due to the Trust Fund balance in 1991, when the balance exceeded 5% and tax rates were modified using a negative adjustment factor. We analyzed the Unemployment Compensation tax structure by several solvency indicators to assess whether the ability of the Trust Fund to respond to claims during periods of high unemployment has changed from 1989 through 1994.

Solvency of the UC Trust Fund Has Declined

The capacity of the Unemployment Compensation Trust Fund to pay for benefit payments has declined since 1989. The Fund's reserves in 1994 had the capacity to pay benefits for less than one year in a severe recession, while in 1989 the Fund's reserves could have lasted almost one and one-half years. Although the Trust Fund had a balance of $1.6 billion, solvency measures indicate the Fund's capacity may be inadequate to finance the benefits that would have to be paid if a severe recession developed.

Ideally, the tax structure should ensure that the Trust Fund is adequately funded to pay current benefits and to accumulate sufficient funds to pay benefits during economic recessions, when the tax sources for the fund can be declining while benefit payment needs can be sharply increasing. Without sufficient Trust Fund reserves, two potential problems can arise. First, during an economic downturn employer UC taxes will increase at a higher rate (than would occur if the reserves were larger) to pay benefits to the increased number of unemployed workers. This tax increase would occur during a recession when employers could least afford it and could hamper economic recovery from the recession. Second, in the worse-case scenario, the Fund could become insolvent and require a loan from the federal government to pay UC benefits to the state's unemployed workers. Thus, employer tax rates would be raised to pay current benefits and to repay the federal loan, along with interest. However, if the Trust Fund reserves are too high, then employers would be paying too much in taxes when those dollars could be circulating in the state's economy.

Despite having a balance of $1.6 billion, the third largest of all state UC trust funds at the end of 1994, financial ratings of the Florida UC Trust Fund have declined since 1989 according to two key measures of fund solvency used by the General Accounting Office: the High Cost Multiple and Fund Capacity. The decline in the Trust Fund's solvency ratings is primarily attributable to the difference in the basis of computing UC benefit (which is based on actual wages) and establishing Trust Fund size (which is based on the first $7,000 of employee wages). The $1.6 billion Trust Fund balance as of December 1994, appears to be inadequate to finance the benefits that would have to be paid if a severe recession developed.

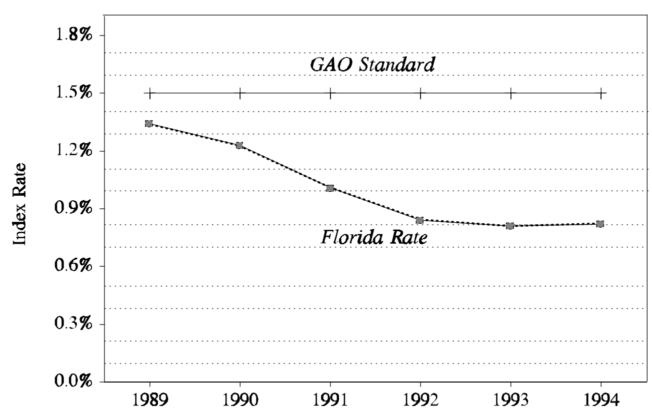
Update to UC Trust Fund Balance:
The Department reported that, as of December 31, 1995, Florida's UC Trust Fund balance was $1.8 billion. The solvency measures related to the 1995 UC Trust Fund balance are not yet available from the U.S. Department of Labor.

High Cost Multiple

The High Cost Multiple is a generally accepted measure of solvency and assesses how long recession-level benefits could be paid from current fund balances. The High Cost Multiple is calculated by computing the ratio of the current fund balance to the total payroll for employees covered by the UC Program. This is divided by the ratio of the fund's historically highest 12-month period of benefit payments (i.e., severe recession) to total wages for the same period. The General Accounting Office reports that the generally accepted High Cost Multiple standard for financial adequacy is 1.5 and above, which means fund reserves would last at least 1.5 years in a severe recession.

Florida's 1994 Trust Fund balance yielded a High Cost Multiple score of 0.82 and did not achieve the financial adequacy standard for this solvency measure, which is common problem among UC funds in other states. Some analysts consider the 1.5 standard too high and Florida's Trust Fund balance would have needed to be increased from $1.6 billion to $3 billion as of December 1994 to achieve this standard. Nonetheless, between 1989 and 1994 Florida's Unemployment Compensation Trust Fund High Cost Multiple declined from 1.34 to 0.82, as displayed in Exhibit 2. Based on the High Cost Multiple, Florida's capacity to pay benefits in a severe recession would extend for less than one year.

Exhibit 2: High Cost Multiple Indicates the UC Trust Fund's Financial Rate Has Declined

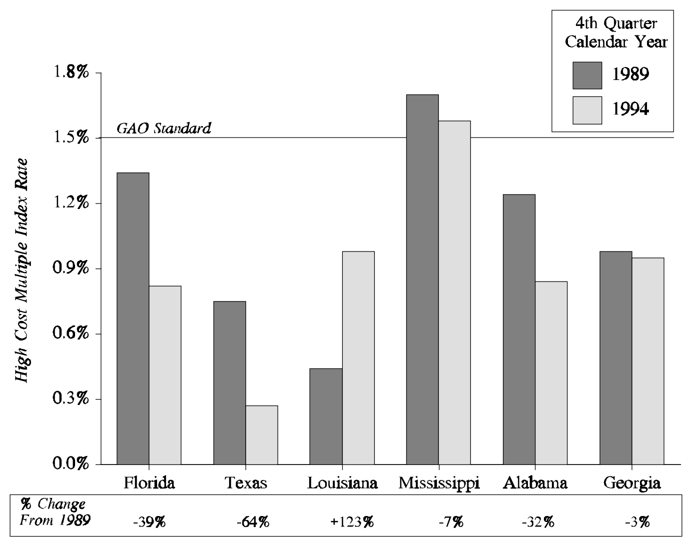


Source: U.S. Department of Labor and the U.S. General Accounting Office.

During the period, Florida's ranking among all states for this solvency measure also fell from 10th to 26th. Exhibit

3 shows that, with the exception of the state of Louisiana, other regional states have experienced declines in solvency as measured by the High Cost Multiple.

Exhibit 3: Regional States Generally Show a Decrease in Solvency as Measured By the High Cost Multiple



Source: U.S. Department of Labor and the U.S. General Accounting Office.

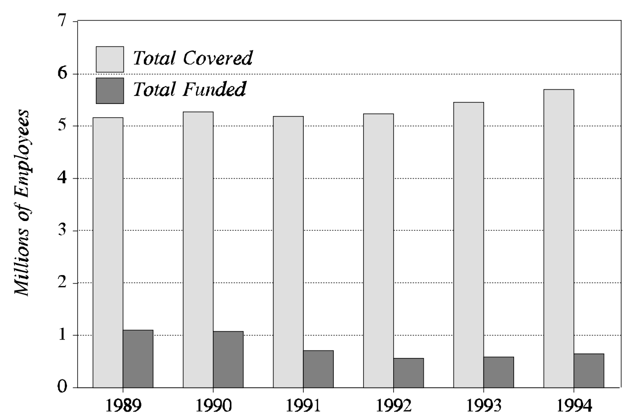
Fund Capacity

Another measure of solvency is Fund Capacity, which assesses how many claimants the program could support with the current fund balance. A fund's capacity is calculated by dividing the year-end balance of the trust fund by the average weekly benefit amount times the average number of weeks that benefits were paid.

While Florida's workforce has increased since 1989, the UC Trust Fund balance can support fewer unemployed workers as indicated in Exhibit 4. Between 1989 and 1994 the number of workers covered by the UC Program increased by more than 535,000 employees. During this same period, however, the capacity of the Trust Fund balance to support unemployed workers decreased from approximately 1,105,000 in 1989 to 647,000 in 1994.

Thus, the Trust Fund balance can support 458,000 fewer claimants. This solvency measure indicates that the capacity of Florida's Trust Fund is not keeping pace with the growth in the workforce and associated potential UC benefit liabilities.

Exhibit 4: The Number of Covered Employees Has Decreased While the Fund's Capacity to Support Claimants Has Declined



Source: U.S. Department of Labor and the Florida Department of Labor and Employment Security.

There are no reported standards for the Fund Capacity. The optimal number of claimants a state fund balance should support would vary by state depending on factors such as the size of the state's workforce and the amount of average weekly benefits paid to claimants. However, in comparison to other large states such as California, Texas, and New York, the state of Florida's trust fund balance in 1994 could support more unemployed workers than 2 of those 3 states as shown in Exhibit 5.

Exhibit 5: Florida's UC Trust Fund Balance of 1994 Had the Capacity to Support More Unemployed Workers Than Texas and New York

State	1994 UC Trust Fund Balance	Approximate Number of Unemployed Workers That Fund Balance Could Support
California	$2.1 Billion	785,000
Florida	1.6 Billion	647,000
Texas	.480 Million	164,000
New York	.190 Million	46,000

Source: U.S. Department of Labor.

Factors Affecting Florida's Trust Fund Solvency Measures

Our analysis found that the decline in solvency measures is primarily due to the difference in the basis for computing benefits and establishing the Trust Fund size in Florida. [4] UC benefits are computed using an employee's total wages, while the Trust Fund size is tied to taxable wages which are limited to the first $7,000 of each employee's earnings. If an individual's annual earnings had been $30,000, for example, this figure would be used as the basis for calculating the individual's UC benefit payment. However, only $7,000 of this individual's earnings would be considered taxable wages when determining the size of the Trust Fund.

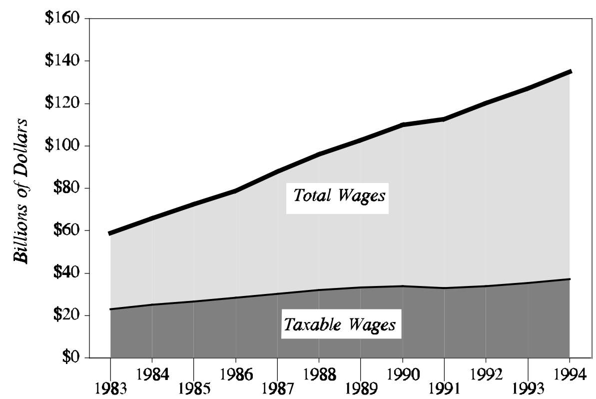
Since UC benefits have increased at a higher rate than taxable wages, the growth in the Trust Fund balance has not kept pace with UC benefit liabilities as indicated by the various solvency measures. The maximum allowable benefit has risen 66% from $150 per week in 1983 to the current level of $250 per week. In addition, the average

[4] Other states use a variety of methods for establishing trust fund size, such as percentages of last year's payrolls, multiples of last year's benefit payments, in specific dollars, or other factors. U.S. Department of Labor does not clearly distinguish whether states use taxable payrolls (i.e., taxable wages) as the basis for trust fund size (as done in Florida) or total payrolls (i.e., total wages).

benefit paid to claimants has also risen, due to increased wages earned by employees during this period.

In contrast to the relative sharp rise in benefits paid, the taxable wage base has remained the same since 1983, when it was increased 16% from $6,000 to $7,000. As a result, the growth in total taxable wages has been lower than the growth in total wages earned by workers in Florida (see Exhibit 6). Further increases in UC benefits without a change in how Trust Fund size is determined will exacerbate the gap between Fund reserves and benefit liabilities.

Exhibit 6: Total Wages in Florida Have Increased At a Higher Rate Than Taxable Wages, Which Are Used to Compute Trust Fund Size



Source: Florida Department of Labor and Employment Security.

Conclusions and Recommendations

Ideally, the Unemployment Compensation tax structure should ensure that the UC Trust Fund has sufficient reserves to pay benefits during recessions to prevent large tax rate increases during economic downturns and to ensure the Trust Fund does not become insolvent. However, the capacity of the UC Trust Fund to pay for benefits has declined since 1989 and may not be sufficient to pay benefit costs during a severe recession. The decline in the financial rating of the Trust Fund is attributable to the size of the Trust Fund being limited to 4% to 5% of total taxable wages, which has not kept pace with the growth of UC benefit liabilities. If the reserves in the Trust Fund are not increased, the capacity of the Fund to respond to a recession will continue to decline.

We identified three options that the Legislature could consider for improving the capacity of the UC Trust Fund to respond to a recession and to arrest the decline in the Fund's financial rating: (1) periodically raise the taxable wage base to more closely link it to increases in total wages and potential claim demands upon the Fund; (2) change the basis of the Trust Fund balance from taxable wages to total wages to more directly link the Fund size to benefit increases; and (3) periodically increase the Trust Fund reserve above the current percentage ranges so that it can grow along with total wages and benefits (e.g., increase the Fund balance from the current 4% and 5% to between 5% and 6% of the total taxable wages).

In order to evaluate these as well as other potential options, the Legislature would need to know the impact each solution will have on areas such as business tax rates and Trust Fund solvency. The optimum solution would improve solvency measures and minimize the tax burden on employers. However, according to program managers, the Department has not developed the capability to readily analyze the impact of potential changes to the Trust Fund, but is in the process of improving the data query capabilities of its management information systems.

To ensure the Trust Fund has adequate reserves to pay benefit claims in the event of a severe recession, we recommend that the Legislature increase the reserves of the UC Trust Fund by changing how the Trust Fund size is determined. To assist the Legislature in selecting the best method, we recommend that the Department modify the data query capabilities of its management information system to assess the tax impact on employers for each option of increasing the reserves of UC Trust Fund (e.g., changing the basis of Fund size from taxable to total wages).

Section 2
Reporting on Program Performance Could Be Improved

The Department has established goals, objectives, and performance measures for the Unemployment Compensation Program. Pursuant to federal regulatory requirements, the Department reports program statistics to the federal government. However, it provides the Legislature and the citizens of Florida with limited information about program performance and accomplishment of its goals. As part of monitoring program performance, the Department has identified a statutory change that could reduce benefit payment errors and reduce employer bookkeeping and reporting requirements.

The primary goal of the UC Program is to provide income to eligible workers who become unemployed through no fault of their own and to provide a degree of stability to the economy during recessions by maintaining some of their purchasing power within the business community. DLES has developed efficiency measures that are used to monitor the administration of the UC Program, but the Department has provided limited information to the Legislature about the performance and outcomes of the UC Program. DLES has used its measures to improve program performance and has concluded that changing the statutory formula for calculating UC benefit payments would reduce Department errors and reduce employer record keeping and reporting requirements.

Program Objectives, Measures, and Reporting

The Department has determined the objective of the program is to "Accommodate all individuals requesting services from the Division of Unemployment Compensation. Such services shall be guided by Federal standards of quality and performance and be in accordance with current Federal and State legislation." The Department has also established performance measures that assess how efficiently DLES is administering the UC Program for each of the program's key functional areas: benefits, appeals, and taxes. For example, staff collect information on how the program meets its goal of issuing first benefit payments to claimants within 14 days of application. It also measures the accuracy of benefit payments, the reversal rate of appeal decisions, and what portion of tax payments are deposited within 3 working days. Many of these measures are stipulated by the federal government, while others have been developed by DLES staff. Program performance using the Department's key indicators are identified in Exhibit 7.

Exhibit 7: Results of Key Performance Indicators Compared to Performance Standards for the Department's Unemployment Compensation Program During Fiscal Year 1994-95

Key Performance Indicators	Results for Fiscal Year 1994-95	Performance Standards
Percentage of first payment of benefits made within 14 days of the first compensable week (intrastate)	90.8%	87%
Percentage of first payment of benefits made within 14 days of the first compensable week (interstate)	79.2%	70%
Percent of nonmonetary determination promptness based on issues arising after the original determination	77.7%	80%
Percent of appeal decisions rendered within 30 days of the date the appeal was filed	66.8%	60%
Percent of appeal decisions rendered within 45 days of the date the appeal was filed	82.6%	80%
Percent of monies deposited within 3 working days of receipt	95.9%	90%
Percent of benefit fraud overpayment recovered	50.9%	55%
Total overpayment dollars recovered	$6,563,677	None
Percent of employers' contribution (i.e., tax) reports processed timely	97.4%	95%
Voluntary compliance - percent of employer tax payments submitted within 150 days	98.2%	75%
UC proper payment rate (Calendar Year 1994)	91.2%	None
Number of active liable employer accounts	340,607	None

Source: Division of Unemployment Compensation monthly reports.

Although DLES reports comprehensive information about the program to the federal government pursuant to federal regulatory requirements, the Department reports limited information on program performance to the Legislature through the Exhibit D-2s of its Legislative Budget Requests. For example, the D-2s include two measures that assess timeliness of processing new employer determinations and monetary determinations of new claims, but do not address the efficiency of other key program functions such as benefit overpayment rates and timeliness of tax deposits. In addition, D-2s do not currently contain measures that can be used to evaluate the impact of the program and its outcomes, as required by budgeting instructions issued by the Office of the Governor. For example, the Department does not measure or report on the solvency of the UC Trust Fund. Such information would be useful to the Legislature in its consideration of alternatives to the current UC tax structure.

Department Use of Performance Information

To help improve program performance, the Department produces monthly reports on the Unemployment Compensation Program to compare program performance against federal standards and internal benchmarks. When program standards are not met, Department staff analyze the causes of the problem and needed corrective action, such as changes in management practices or to state law.

For example, in 1993 Department management observed that the error rate in making benefit payments had increased between 1991 and 1993, and this increase caused the UC proper payment rate, a key performance indicator, to drop. As a part of its efforts to analyze ways to reduce the error rate in making benefit payments, DLES determined that the statutory method of calculating benefit amounts was contributing to the problem. By statute, benefit payments are currently based on employee earnings and weeks worked as reported by employers. DLES has found that employer reporting errors, especially weeks worked, has caused overpayments to unemployed workers. For example, in calendar year 1994 DLES had a 9% benefit overpayment rate (e.g., percentage of benefit dollars overpaid). DLES determined that in 40% of the cases where benefits were overpaid, the overpayment was attributable to employer errors, accounting for 13% of the overpayment dollars. By changing to the more commonly used high quarter method of calculating benefits, state reporting would coincide with federal UC Tax reporting requirements. [5] In addition, this change should eliminate this type of employer reporting error and reduce employer record keeping, since employers would no longer have to track and report weeks worked. Reducing employer errors will assist in reducing overpayment of benefits.

Recommendations

For each of the program's key functional areas (e.g., benefits, appeals, and taxes) we recommend the Department include additional measures in next year's Legislative Budget Request to give the Legislature a more comprehensive view of how efficiently DLES is administering the UC Program. In addition, the Department should proceed with developing outcome measures for the UC Program, such as Trust Fund Solvency, in preparation for the requirements of performance based program budgeting.

In order to reduce overpayment of benefits, we recommend the Legislature amend s. 443.111, F.S., to change the basis of calculating Unemployment Compensation benefit payments from weeks worked to high quarter.

5 As of January 1995, 38 states were using the high quarter method of calculating UC benefit payments. The high quarter is the quarter in the base period (i.e., first four of the last five completed calendar quarters preceding the receipt of UC benefits) during which the claimant had the greatest amount of wages paid. Using the high quarter method, DLES indicates the weekly UC benefit amount would be equal to 1/26 of the high quarter earnings not to exceed $250.

Section 3
Processing of Taxes Is Labor Intensive and Is Not Cost Effective

The Department's manual processing of unemployment taxes is labor intensive and is not the most cost-effective approach to handling these monies. The Department plans to redesign and automate this process, but has not yet completed its plans or cost estimates for automation. The Department also has not evaluated the alternative of contracting the processing of taxes to either the Department of Revenue or a private entity.

As part of its tax collection process, the Department requires employers to submit tax report forms with payment and wage reports for all employees on a quarterly basis. Currently, the Bureau of Tax staff manually open and distribute the mail, enter tax report and payment information into the computer system, reconcile any problematic payments, endorse checks, microfilm checks, and prepare checks for deposit. [6] Payments are then deposited into a bank. Employers' quarterly payment of taxes creates a cyclical workload for the Department and additional staff must temporarily be assigned to processing the mail and checks. In order to meet the federal standard that these monies be deposited within 3 working days, Bureau of Tax staff must work overtime. In fiscal year 1994-95, it cost the Bureau $2,703,828 (of which $299,607 was overtime costs) to process: 1,158,559 payments totaling $538 million; 1,404,872 tax reports; and other associated mail. [7] Thus, it costs DLES approximately $2 to process each tax payment and associated mail.

The Department's Future Plans Should Consider Alternatives to In-House Processing

The Department plans to redesign the activities within the Bureau of Tax, including tax processing, but has not included contracting with other entities as an alternative to

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[6] Approximately 1% of the employers remit tax payment by electronic fund transfer (EFT) through the Department of Revenue. The payment information is sent to DLES and entered into its computer system electronically. In fiscal year 1994-95, 29% of the tax payments were remitted by EFT ($214 million of $752 million total tax payments).

[7] This estimate does not include cost associated with the processing of the wage reports (UCT-6W) and also excludes the cost of tax reports mailing and data processing associated with the printing of the tax reports or maintaining data posted to employer's account.

in-house processing of tax revenues. The Department is considering various changes such as upgrading the computer system; increasing options for electronic remittal of tax and wage reports; combining the tax and wage reports into a single, scannable form; and acquiring scanning equipment and other banking technology for processing wage reports, tax payments, and tax reports in-house. The Department has not completed its plans or estimates of the equipment and operational costs of possible changes. Increased automation and electronic remittal of information should reduce paperwork, improve accuracy of data, and reduce administrative costs.

Improving the processing of tax payments and reports could also be achieved through contracting. Additional benefits of contracting out include saving state money on the investment of technological equipment and later having to upgrade such equipment. South Carolina has recently automated its unemployment tax processing and estimated that their operational costs have been reduced. However, their capital investment in technology and equipment maintenance costs were substantial. [8] Additionally, the technology for automated processing equipment appears to be changing at a rapid rate. Purchased equipment may become obsolete in a short period of time.

Thirteen States Contract With Banks to Process Revenue

The Department should consider contracting and evaluate the costs and benefits of this alternative for processing taxes. As of 1994, 13 states have contracted with banks to process unemployment compensation tax remittances. Such contracts are referred to as the "lock box" system. We contacted 9 of the 13 states to identify benefits of a lock box system. Staff in other states stated that a lock box system: (1) reduced the number of staff needed and therefore salary and benefit costs; (2) improved data entry accuracy rates; and (3) improved deposit timeliness. Actual costs for processing the reports and checks among these states varied greatly depending on the number of reports and

[8] South Carolina purchased automated equipment for $600,000 to handle a workload 25% of Florida’s workload. If we use South Carolina as a base it appears that initial costs for scanning equipment alone would be over $2,000,000 for Florida. Maintenance costs would be additional.

checks submitted and processing functions specified in their contract. For example, the states we contacted reported lock box fees ranging from 33 cents per check and a monthly $50 dollar fee to 9.5 cents per tax coupon and 0.5 cents per check. Some states have found a lock box system so successful that they are expanding the lock box system to add the function of entering data from UC tax reports. In addition, the Florida Department of State currently has a contract with a bank to process revenues associated with businesses filing corporation annual reports and fictitious name registrations.

DLES Could Contract With the Department of Revenue

DLES could also consider contracting with the Department of Revenue, which already has the technology to perform various services associated with processing revenue and currently performs the electronic fund transfers for DLES. In addition, the Department of Revenue is in the process of implementing scanning technology for processing revenue, which is expected to cost approximately $2,250,000. The Department of Revenue currently has contracts for processing revenue with several state agencies including the Department of Highway Safety and Motor Vehicles for driver's license renewals; the Florida Department of Law Enforcement for firearm licenses; and the Department of Business and Professional Regulation for occupational license renewals. The costs to process remittances for these agencies varies from 20 cents to 60 cents per transaction depending on the contract requirements. By contracting with the Department of Revenue and using their expertise and equipment, the state would not be funding the purchase of similar equipment in two different state agencies.

DLES's Bureau of Tax staff expressed the concern that contracting the processing of taxes could be inconvenient to the taxpayer, because the employers would need to mail the tax report to the contract entity and the wage report to DLES. Bureau staff also expressed concerns about the accuracy and timeliness of deposits if this function were contracted out. However, staff in other states we spoke with stated that under the lock box system, wage reports can be separated from the tax report, batched, and then forwarded to the Department for processing. In addition, DLES could consider contracting the wage report processing in addition to taxes and include stipulations about timeliness and accuracy in its contract.

Conclusions and Recommendations

DLES's manual processing of unemployment taxes is labor intensive and currently costs approximately $2 per tax payment and associated mail. The Department is planning to redesign the activities within the Bureau of Tax and considering the purchase of equipment to automate its tax processing activities. Costs to acquire such technology may range from $600,000 to $2.25 million. Contracting the processing of taxes could be a cost-effective alternative to acquiring technology that may quickly become obsolete. By contracting the processing of UC taxes to another entity, we estimate that DLES could save approximately $300,000 in overtime costs and up to $1 million annually, depending on various factors, such as the terms of the contract and whether some positions that currently process taxes are eliminated by the Department. We recommend that the Department, as part of its current planning efforts, consider contracting next fiscal year with the Department of Revenue or issue a request for proposal to contract with private entities such as banks for the processing of tax revenues and other associated activities. When evaluating the contracting option, the Department should consider the following factors: the initial investment costs of equipment along with potential obsolescence of such equipment; operating costs; and controls for accuracy and timely processing of revenue.

Section 4
Delinquent Taxes

Most employers paid the UC taxes owed to DLES in a timely manner. However, as of December 31, 1994, private employers owed approximately $21.8 million in UC taxes and reimbursable employers (which include governments and non-profit or organizations) owed $2.4 million. [9] The Department may take a variety of actions when an employer has become delinquent in paying UC taxes. For example, DLES assesses private employers 1% interest per month on owed UC taxes and may increase the employers tax rates, as employer experience ratings consider payment history. However, the Department has not used all of the tax collection and enforcement tools authorized by state law to collect delinquent taxes from state and local government agencies.

Tax Payment Enforcement Tools Should Be Used

Some state and local government entities are not promptly paying owed UC taxes. The Department has not been using all of the tax collection and enforcement tools provided by statute. In addition, the Department has not been charging state agencies interest on delinquent UC taxes, which is authorized by state law to encourage prompt payment of taxes.

Chapter 443, F.S., requires government agencies to pay UC taxes by reimbursing the UC Trust Fund for actual benefits paid to former employees. Section 443.141(1)(a), F.S., authorizes DLES to assess interest on delinquent taxes not paid within 30 days. Although DLES charges local government accounts interest on delinquent taxes, it has not charged state agencies interest on their delinquent taxes. As of June 30, 1995, 84 state agency accounts owed about $790,000 in delinquent UC taxes and DLES could have charged at least $32,000 interest to these accounts. After bringing this to the attention of Department officials, DLES staff said they will begin charging interest on all accounts not paid within 30 days.

[9] Reimbursable employers pay for UC expenses (i.e., from the employees they discharge) on a reimbursable basis and get billed quarterly by DLES for these expenses.

In addition, DLES has not used its enforcement powers authorized by state law when government agencies have been delinquent in the payment of UC taxes. Section 216.292(7)(a), F.S., provides that DLES may collect UC taxes owed by a state agency delinquent by 90 days or more by requesting that the Comptroller transfer the amounts due to the UC Trust Fund from any funds of the agency available. If UC taxes from a local government becomes delinquent for 120 days or more, DLES may request that the Department of Revenue or the Department of Banking and Finance deduct the amounts owed from any funds to be distributed to that local government pursuant to the provisions of s. 443.131(5)(a)2., F.S. However, DLES staff have not used these statutory provisions as a mechanism for collecting UC taxes owed by government agencies. At least 45% of the $790,000 owed by state agencies as June 30, 1995, had been delinquent for at least 90 days and could have been collected pursuant to these enforcement provisions.

Recommendations

We recommend that the Department charge state agencies interest on delinquent UC taxes as authorized by s. 443.141(1)(a), F.S., thereby encouraging prompt payment. We also recommend that the Department use all of its collection tools available to collect delinquent taxes from state and local government entities.

List of Appendices

Appendices

Appendix A
Detailed Review Methodology

To evaluate the solvency and performance of the UC Trust Fund since 1989 and alternatives for setting UC tax rates, we reviewed the U.S. Department of Labor quarterly statistical reports for Florida and compared them to statistics for other states. We also reviewed federal and state documents to identify the flexibility given to states in setting UC tax rates, how Florida sets its tax rates, and methods used by other states for setting tax rates. We also conducted a group discussion with representatives from DLES, legislative committees, private organizations representing Florida businesses, and Florida TaxWatch to obtain their views on the current methods for setting UC taxes and financing the UC Trust Fund. We also interviewed DLES staff to determine the capability of current Department information systems to assess the impact of possible changes to how tax rates are set on Trust Fund solvency and Florida businesses.

We reviewed instructions issued by the Governor's Office and federal regulations to identify DLES's responsibilities for reporting on UC Program performance. We also interviewed Department staff and reviewed DLES's Legislative Budget Request, Agency Strategic Plan, and other reports to determine how the Department evaluates and reports on program performance and uses this information to improve the performance of the UC Program.

To identify and evaluate alternatives for processing UC tax payments, we review U.S. General Accounting Office reports, national studies, and reports from other states. We interviewed Department staff and reviewed internal documents to identify how UC tax remittances are processed, the tax processing workload, and plans for enhancing the current process. We interviewed staff from unemployment compensations programs in nine states to determine how they process UC taxes and their experiences with privatization. To assess whether the processing of UC taxes could be contracted to another entities, we interviewed officials from the Department of Revenue and a Tallahassee bank, both of which process revenue for other state agencies.

To examine how DLES collects delinquent taxes from government agencies, we reviewed the Florida Statutes to identify the enforcement powers granted to the Department for collecting delinquent taxes. We also reviewed Department records and interviewed DLES staff to assess the amount of delinquent taxes owed by government agencies and what DLES has done to collect the amounts owed.

Appendix B
Response From the Department of Labor and Employment Security

In accordance with the provisions of s. 11.45(7)(d), F.S., a list of preliminary and tentative review findings was submitted to the Secretary of the Department of Labor and Employment Security for his review and response.

The Secretary's written response is reprinted herein beginning on page 29.

FLORIDA DEPARTMENT OF LABOR AND EMPLOYMENT SECURITY

January 22 ,1996

Mr. John Turcotte, Director
Office of Program Policy Analysis
and Government Accountability
111 West Madison Street
Tallahassee, Florida 32302

Dear Mr. Turcotte:

Enclosed is the Department of Labor and Employment Security's response to your preliminary audit report on the Unemployment Compensation Program. If there are any questions concerning the content of the response, please contact Dr. Karen Walby in the Division of Unemployment Compensation at 921-3108.

We appreciate the professionalism of your staff whose efforts will be beneficial in further improving the operation of this program.

Sincerely,

Doug Jamerson

DJ/wkc

Enclosure

THE DEPARTMENT OF LABOR AND EMPLOYMENT SECURITY'S
RESPONSE TO THE
OFFICE OF PROGRAM POLICY ANALYSIS AND GOVERNMENT ACCOUNTABILITY'S
AUDIT REPORT ON
THE UNEMPLOYMENT COMPENSATION PROGRAM

SECTION 1: UNEMPLOYMENT COMPENSATION TAX STRUCTURE

Recommendation: "...we recommend that the Legislature increase the reserves of the UC Trust Fund by changing how the Trust Fund size is determined."

Response: We agree with the finding that the current balance in the UC Trust Fund is inadequate to pay benefits in a severe economic recession, and we support a general effort to improve the fund's solvency. However, we believe that any changes to the tax rate formula should be deferred at this time. The UC Bureau of Tax should first complete a thorough analysis of the immediate and long-range effects of each of OPPAGA's three proposed options (to which we would add a fourth option of increasing the maximum tax rate). The decision is not which of these options is better, but which combination of these changes would increase the fund size while equitably distributing the tax burden among employers. Further, we recommend that the Legislature consider making any structural change "revenue neutral" in the first year of the change's implementation.

The tax rate calculation process is very complex, with many interacting factors. It considers each employer's costs, as well as the socialized costs of excess payments and non-charged benefits. We recommend that the Legislature not undertake any revision in the rate structure until the new UC Integrated Tax System is implemented and a proper analysis can be completed. The UC Bureau of Tax should be able to perform such an analysis by March 1, 1998.

Recommendation: ". . .we recommend that the Department modify the data query capabilities of its management information system to assess the tax impact on employers for each option of increasing the reserves of (the) UC Trust Fund."

Response: The Department agrees with this recommendation. The UC Bureau of Tax is in the second year of a four-year project to completely redesign and construct a new Unemployment Compensation Integrated Tax System. Implementation of this system should be completed in November 1997. This system will have a relational database structure which will greatly enhance data query capabilities. A management-decision-support database will allow the Department to measure the impact of program changes on the tax rate structure and trust fund solvency, in a timely and cost-effective manner.

Presently, such an analysis would require a custom program to be written to evaluate each proposed change, which makes it very labor intensive and costly to provide such information. The current system consumes a large percentage of computer programming resources just to perform operational maintenance and handle trouble calls.

SECTION 2: MEASURING, MONITORING, AND REPORTING PROGRAM PERFORMANCE

Recommendation: "We recommend that the Department include additional measures in its D-2s to give the Legislature a more comprehensive view of how efficiently DLES is administering the UC Program. In addition, the Department should proceed with developing outcome measures for the UC Program in preparation for the Program's participation in performance based budgeting."

Response: We agree that the current D-2s do not contain sufficient measures to evaluate the impact of the UC Program. Federal standards have historically driven the monitoring and evaluation of the UC Program's performance. The United States Department of Labor (USDOL) has initiated a Performance Measurement Review to examine, evaluate, and improve the performance measurements it uses in overseeing State Employment Security Agencies, including their UC Programs. The USDOL is working to develop a consistent, unified approach nationwide to promote continuous improvement in the performance of the UC system. The federal government's implementation of new and enhanced performance measures will offer a systematic way of looking at state UC Programs in all significant areas of their performance, for planning purposes, continuous tracking of performance, and responding to evidence of both good and bad performance.

Meanwhile, the Department is continuing to phase its programs into the state performance based budgeting process implemented in response to legislation passed in the 1994 Legislative Session. The UC Division is developing a performance measurement system that addresses its customers' needs, while meeting both federal and state reporting requirements for the evaluation of the UC Program's performance. The next submission of D-2s for the UC Division will reflect improvements to the Bureau of Tax's performance measures to address OPPAGA's concerns.

Recommendation: "...we recommend the Legislature amend s. 443.111, F.S., to change the basis of calculating Unemployment Compensation benefit payments from weeks worked to high quarter."

Response: The Department has drafted legislation which will be submitted to the Legislature for its consideration in the 1996

Regular Session, to change the method of computing benefits to one based on high-quarter earnings and to eliminate the requirement for employers to report weeks worked for each of their employees. This legislation was also introduced in the 1995 Regular Session. It was passed by the House, but "died" on the Senate calendar (HB 1893/SB2270).

In addition to drafting proposed legislation, the UC Division has also reviewed all of its processes and procedures to determine their impact on the benefit overpayment rate and has implemented numerous resulting process improvements. The combined effect of these improvements is a reduction of the Benefit Quality Control error rate and its resulting projection of improperly paid benefits, from 11 percent for 1993 to 8.8 percent for 1995. The error rate for 1996, though subject to change, is currently 5.9 percent.

SECTION 3: COLLECTING UNEMPLOYMENT COMPENSATION TAXES

Recommendation: "We recommend that the Department, as part of its current planning efforts, consider contracting out the processing of tax revenues and other associated activities with the Department of Revenue or private entities such as banks. When evaluating the contracting option, the Department should consider the following factors: the initial investment costs of equipment along with potential obsolescence of such equipment; costs; and controls for accuracy and timely processing of revenue."

Response: The Department agrees with the report's assessment of the Bureau of Tax's current tax payment processing as manual, labor intensive, and therefore costly to administer (approximately $2 per tax report plus associated correspondence). The agency has taken steps to incorporate consideration of out-sourcing tax remittance processing in its current planning efforts. The UC Integrated Tax System project team has met twice (August 11 and October 19, 1995) with the Department of Revenue's (DOR's) SUNTAX project team to familiarize each team with the goals, objectives, and schedules of both system development efforts to identify opportunities for collaboration. Through these meetings, DLES learned that DOR intends to pilot the implementation of a scannable, one-page Intangibles Tax return, beginning February 1, 1996.

The chief of UC's Bureau of Tax and DOR's Director for the General Tax Administration Program met in November 1995 to explore the possibility of DLES and DOR entering into a contractual agreement for DOR to process a scannable, one-page UC tax/wage report on a quarterly basis. DLES has already designed such a tax report which is currently being evaluated/modified by DOR to be compatible with its new processing equipment. UC Bureau of Tax staff will meet as soon as DOR has the necessary processing equipment installed and fully operational, to determine if DOR can meet customer requirements, especially federal timeliness standards.

Before the Bureau of Tax can out-source the processing of the UC tax reports to either DOR or a banking entity, at least two things must occur: 1) the bureau must bid out the production of a scannable, one-page tax/wage report to a private vendor capable of pre-printing employer information (name, address, account number, due date, tax amount, etc.); and 2) a program must be written to create a tape with the employer information to provide it to the vendor for use in imprinting the reports.

SECTION 4: USE OF COLLECTION AND ENFORCEMENT TOOLS

Recommendation: "We recommend that the Department comply with s. 443.141(1)(a), F.S., by charging state agencies interest on delinquent UC taxes, thereby encouraging prompt payment. We also recommend that the Department use all of its collection tools available to collect delinquent taxes from state and local government entities."

Response: In the course of OPPAGA's review, it was discovered that, while interest was being calculated for late payments by state agency accounts, the interest amount was not automatically posted on the monthly statement of indebtedness mailed to state agencies. Apparently, when this law was enacted by the Legislature no affected state agency had budgeted for the payment of interest. Therefore, a management decision was made to grant a grace period of one year, which accounts for the interest not being automatically posted to state agency statements. We discovered that the programming to accomplish this was never done, and associates in the UC Bureau of Tax's Reimbursable Unit had ceased doing it manually. Since the Bureau of Tax is completely revising its tax system, it will incorporate the automatic posting of interest on delinquent state accounts and billings in the new system. Until that time, the Reimbursable Unit has reinstated its manual posting of interest to the monthly statements, effective with the mailing of the third quarter of 1995 statements.

On October 1, 1995, the Bureau of Tax had identified 84 state agency accounts with indebtedness of $886,625. The bureau mailed letters to all delinquent state agencies advising them of their indebtedness and of the future collection actions that would be pursued if the indebtedness were not paid within 30 days, as specified in s. 216.292(7)(a), 1994 Supplement, F.S. In addition, on October 13, 1995, the UC Division conducted a Reimbursable Employer Workshop which was well attended by state agencies, as well as other government entities and non-profit organizations. This workshop explained to the participants what their reporting and payment responsibilities are as reimbursable employers. The workshop also provided information about budgeting for future benefit charges.

As of December 31, 1995, the Bureau of Tax had collected $315,879 of the October 1 amount of $886,625, leaving a balanced owed by 44 state agency accounts of $570,746. In mid-February, the Bureau of Tax intends to certify to the State Comptroller for collection the amount of UC employer tax delinquent over 90 days as of January 31, 1996, for each state agency. A time lag is necessary to allow the bureau to review the SAMAS journal transfers for recent payments.