

UNEMPLOYMENT INSURANCE PROGRAM: ACCURACY OF
IRS FORM 1099-G FILINGS

LOUISIANA WORKFORCE COMMISSION



PERFORMANCE AUDIT SERVICES

DATA ANALYTICS UNIT

MAY 18, 2022

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AT 225-339-3800.**

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LOUISIANA LEGISLATIVE AUDITOR
MICHAEL J. "MIKE" WAGUESPACK, CPA

May 18, 2022

The Honorable Patrick Page Cortez,
President of the Senate
The Honorable Clay Schexnayder,
Speaker of the House of Representatives

Dear Senator Cortez and Representative Schexnayder:

This audit report provides the results of our evaluation of the Louisiana Workforce Commission's (LWC) Unemployment Insurance program (State UI) and federally-funded COVID-19 pandemic-related unemployment assistance programs (Federal UI). The purpose of this audit was to determine if the IRS Form 1099-Gs (1099s) filed by LWC with the Internal Revenue Service (IRS) accurately reported the amount of unemployment benefits paid to claimants during calendar years 2020 and 2021.

Overall, we found that LWC filed accurate 1099s for unemployment benefits paid to 698,372 (99.7%) of 700,204 claimants in calendar year 2020. However, we found that LWC did not file accurate 1099s with the IRS for 1,832 claimants during calendar year 2020, which resulted in approximately \$2.1 million in over-reported unemployment benefits or benefits attributed to incorrect Social Security numbers (SSNs).

We found two main causes for the over-reporting of unemployment benefits to the IRS: (1) LWC included the overpayment balance a claimant owed in the amount of unemployment benefits the claimant was paid, and/or (2) LWC included completed and/or canceled overpayment offset transactions in the amount of unemployment benefits listed on the 1099s.

When LWC determines a claimant has received unemployment benefits he or she is not entitled to, it establishes an overpayment case and notifies the claimant that the benefits must be repaid. If a claimant with an overpayment case is also eligible to receive unemployment benefits, LWC will withhold a portion or all of the benefits (overpayment offset) and apply the withheld amount to the balance of the claimant's overpayment case.

For calendar year 2020, LWC filed 1099s with the IRS that over-reported unemployment benefits for 1,776 claimants by \$1,526,602, which could result in the IRS determining these claimants owe taxes on unemployment benefits they did not receive. However, LWC was able to identify and correct the problem in its system programming, which prevented the same issue

The Honorable Patrick Page Cortez,
President of the Senate
The Honorable Clay Schexnayder,
Speaker of the House of Representatives
May 18, 2022
Page 2

from occurring when it filed 1099s for 2021. LWC staff stated they are working to correct the issue for the calendar year 2020 1099s, after which the corrected forms will be submitted to the IRS.

In addition, LWC filed 1099s for 56 claimants totaling \$583,048 that contained incorrect SSNs. However, LWC does not appear to have filed corrected 1099s for these claimants even though their SSNs were corrected in the agency's Helping Individuals Reach Employment (HIRE) system. HiRE is the LWC self-service system that claimants must use to access unemployment benefits services.

Lastly, LWC has not submitted corrected 1099s for claimants with incorrect 1099s for calendar year 2020 due to issues in its HiRE system. We found that these issues resulted in LWC's HiRE system generating inaccurate 1099s for 10,791 additional claimants. These inaccurate 1099s have not been filed with the IRS, but they have been added to the claimant's HiRE accounts and overstate the affected claimants' benefits by \$8.6 million.

The report contains our findings, conclusions, and recommendations. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the Louisiana Workforce Commission for its assistance during this audit.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Mike Waguespack", with a long horizontal flourish extending to the right.

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

MJW/aa

Louisiana Legislative Auditor

Michael J. “Mike” Waguespack, CPA



Unemployment Insurance Program: Accuracy of IRS Form 1099-G Filings Louisiana Workforce Commission

May 2022

Audit Control # 82200012

Introduction

We evaluated the Louisiana Workforce Commission’s (LWC) Unemployment Insurance program (State UI) and federally-funded COVID-19 pandemic-related unemployment assistance programs (Federal UI) to determine if the IRS Form 1099-Gs (1099s) filed by LWC with the Internal Revenue Service (IRS) accurately reported the amount of unemployment benefits paid to individuals (claimants) during calendar years 2020 and 2021. The 1099-G reports certain government payments, such as unemployment benefit payments, to the IRS and are filed by the unit of the federal, state, or local government issuing the payments. As a part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Federal government created the Pandemic Unemployment Assistance (PUA) benefit program for individuals, such as contractors or gig (occasional) workers, who were not eligible for regular State UI benefits. In addition, the Federal government enacted multiple enhanced unemployment benefit programs (enhanced benefits)¹ which supplemented the State UI and PUA unemployment programs. These benefits substantially increased the amount of unemployment benefits a claimant could earn, thereby increasing the potential tax liability to these claimants.

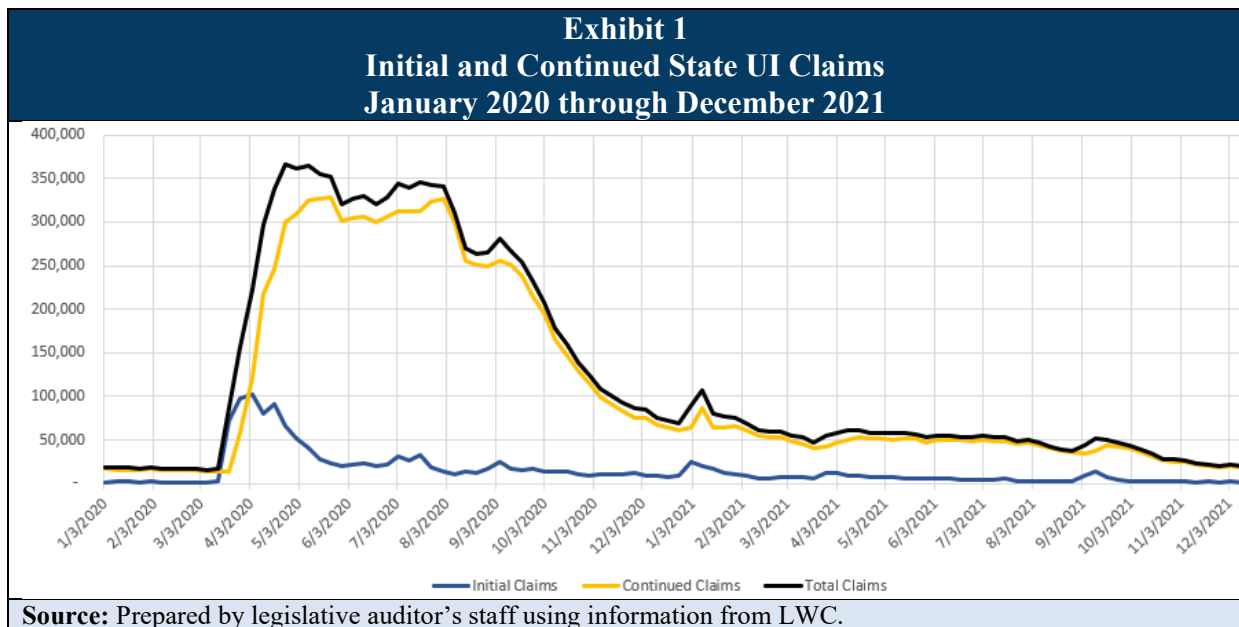
UI was established by the Federal Social Security Act in 1935 to provide workers whose jobs have been terminated, through no fault of their own, monetary payments for a set period of time or until they find new employment.

Unemployment benefits are taxable income, and LWC staff stated that at the end of every January each claimant is issued a 1099 that lists the amount of unemployment benefits paid to each claimant during the prior year. However, the American Rescue Plan, enacted on March 11, 2021, allowed unemployment benefit claimants with modified adjusted gross income² of less than \$150,000 to exclude up to \$10,200 of unemployment compensation from their taxable income. If a claimant’s modified adjusted gross income is equal to or more than \$150,000, the claimant cannot exclude any unemployment benefits from their taxable income. This exclusion only applied to unemployment benefits paid between January 1, 2020, and December 31, 2020.

¹ Includes \$600 per week Federal Pandemic Unemployment Compensation (FPUC) for the weeks ending April 4, 2020 through July 25, 2020; \$300 per week Lost Wages Assistance Program (LWAP) for the weeks ending August 1, 2020 through September 5, 2020; and \$300 per week FPUC for the weeks ending January 2, 2021 through September 4, 2021.

² Modified Adjusted Gross Income, as it relates to unemployment benefits received during calendar year 2020, is calculated by excluding unemployment benefits and other certain income from an individual’s total income when calculating their adjusted gross income.

We conducted this audit because of the significant increase in costs and the number of applicants for State and Federal UI during the COVID-19 pandemic, which according to data provided by LWC, totaled \$10.03 billion in payments to 753,574 claimants from January 1, 2020, through December 31, 2021. According to LWC, it administered 13 different unemployment benefit programs during our scope, with each having its own rules and requirements. In addition, LWC stated that implementing the provisions of these programs was challenging because its current benefit system was designed to administer two benefit programs at a time. Louisiana’s unemployment rate grew from 5.2% in February 2020 to 13.1% in April 2020,³ and the total number of State UI claims increased by more than 2,000%, from 16,798 on February 29, 2020, to 366,798 on April 25, 2020.⁴ See Exhibit 1 for the rise in initial and continued State UI claims from January 2020 through December 2021 as a result of the COVID-19 pandemic.



Also, our office received numerous requests from legislators and the public to analyze various issues within LWC’s unemployment benefit programs. This report is the sixth report in a series of reports we have issued on unemployment benefits paid during the COVID-19 pandemic.⁵

The objective of this audit is:

To determine if LWC filed accurate Internal Revenue Service Form 1099-Gs with the Internal Revenue Service.

Our results are summarized on the next page and discussed in detail throughout the remainder of the report. Appendix A contains LWC’s response to this report, and Appendix B details our scope and methodology.

³ United States Bureau of Labor Statistics, as of March 24, 2021.

⁴ To further combat the spread of COVID-19 in Louisiana, Governor John Bel Edwards issued a Stay-at-Home Order on March 22, 2020, directing all Louisiana residents to shelter at home and limit movements outside of their homes beyond essential needs.

⁵ The five previous reports can be found on the LLA website at the following location: <https://www.la.gov/reports-data/audit/audit-type/index.shtml?key=Data%20Analytics/Medicaid>

Objective: To determine if LWC filed accurate Internal Revenue Service Form 1099-Gs with the Internal Revenue Service.

Overall, we found that LWC filed accurate Internal Revenue Service (IRS) Form 1099-Gs (1099s) with the IRS for unemployment benefits paid to 698,372 (99.7%) of 700,204 claimants in calendar year 2020. However, we found that LWC did not file accurate 1099s with the IRS for 1,832 claimants during calendar year 2020, resulting in approximately \$2.1 million in over-reported unemployment benefits or benefits attributed to incorrect social security numbers (SSNs). Due to issues in its Helping Individuals Reach Employment (HiRE)⁶ system, LWC has not filed corrected 1099s with the IRS for calendar year 2020 for the claimants affected by these issues. These inaccurate 1099s could result in the IRS determining that these claimants owe taxes on unemployment benefits they were not paid.

We identified the inaccurate 1099 filings by comparing unemployment benefits paid to claimants during calendar years 2020 and 2021 to the 1099s LWC filed with the IRS. Our comparison of calendar year 2020 unemployment benefit payment data and 1099s found that, while the amount reported on 1099s for 698,372 (99.7%) of the 700,204 claimants were not over-reported and listed the correct SSNs, 1,832 claimants had issues regarding their 1099s where LWC either (1) over-reported the amount of benefits paid to claimants on 1099s or (2) filed 1099s that listed incorrect SSNs. Although our comparisons found that the majority of the issues identified in the 1099 filings for calendar year 2020 were resolved prior to LWC filing 1099s for calendar year 2021, LWC employees stated that LWC has not filed corrected 1099s for the claimants⁷ identified by our calendar year 2020 comparison, which is discussed in detail on page five of this report. See Exhibit 2 for a summary of these numbers.

Exhibit 2		
Summary of Calendar Year 2020 Misreportings Based on 1099s and Unemployment Benefit Payment Data		
Category	Number of Claimants	Amount
Over-reported on 1099	1,776	\$1,526,602*
Incorrect SSNs	56	583,048
Total	1,832	\$2,109,650
*This represents the difference between the amount of unemployment benefits paid and the amount of unemployment benefits reported on 1099s. Source: Prepared by legislative auditor's staff using unemployment insurance data.		

⁶ HiRE is LWC's self-service system which claimants are required to use to access unemployment benefits services.

⁷ Based on our review of unemployment documents for a targeted selection of claimants identified by this comparison.

For calendar year 2020, LWC filed 1099s with the IRS that over-reported unemployment benefits for 1,776 claimants by \$1,526,602, which could result in the IRS determining that these claimants owe taxes on unemployment benefits they did not receive. However, LWC was able to prevent this issue from occurring with 1099s filed for calendar year 2021.

When LWC determines that a claimant has received unemployment benefits they were not entitled to receive, it establishes an overpayment case and notifies the claimant that the unemployment benefits must be repaid to LWC. In addition, if LWC determines that a claimant with an overpayment case is eligible to receive unemployment benefits, LWC will withhold a portion or all of the claimant's unemployment benefits (overpayment offset) and apply the withheld amount to the balance of the claimant's overpayment case. During our review of the over-reported results, we found that the two main causes for the over-reporting of unemployment benefits to the IRS was (1) due to LWC including the balance owed by claimants for overpayment cases in the amount of unemployment benefits that claimants were paid and/or (2) by including completed and/or canceled overpayment offset transactions in the amount of unemployment benefits listed on claimant 1099s. For example,

- One claimant received unemployment benefits totaling \$18,171 during calendar year 2020, but the claimant's 1099 for calendar year 2020 reported that the claimant received unemployment benefits totaling \$21,308. A review of the claimant's HiRE account found that this additional amount was due to overpayment offsets being included in the total amount of unemployment benefits paid.
- One claimant was paid \$8,304 of unemployment benefits during calendar year 2020. However, the 1099 stated that the claimant was paid \$70,002 in unemployment benefits during calendar year 2020. According to LWC, the over-reported amount of \$61,698 on the claimant's 1099 was a result of both completed and adjudicated overpayment offset transactions being included in the total amount of unemployment benefits paid.

According to LWC, the inaccurate reporting of unemployment benefits on 1099s was the result of programming updates to include new funding sources, requirements, and certain exemptions under the CARES Act. LWC stated that it was able to identify and correct the issue in its system programming, which prevented the same issue from occurring when it filed 1099s for calendar year 2021. LWC staff stated it is currently working to correct the issue for the calendar year 2020 1099s, after which it will submit corrected 1099s to the IRS for claimants whose benefits were over-reported.

LWC filed 1099s for 56 claimants totaling \$583,048 which contained incorrect SSNs for the claimants. However, LWC does not appear to have filed corrected 1099s with the IRS for these claimants even though their SSNs were corrected in HiRE. When comparing the 1099s LWC filed with the IRS and unemployment payment data for calendar year 2020, we found instances where 1099s were filed for claimants that appeared to have no payments in the payment data. Our comparison also identified instances where claimants were paid unemployment benefits in calendar year 2020 but did not appear to have had a 1099 filed with

the IRS. Upon further review, we found that these unmatched benefit payments and 1099s were a result of 56 claimants' SSNs being listed incorrectly on their 1099s, which reported \$583,048 of total unemployment benefits. Our review of the HiRE accounts for these claimants found that their SSNs had been changed in HiRE, but LWC had not filed corrected 1099s using the updated SSNs.

For example, one claimant was paid unemployment benefits totaling \$21,633 during calendar year 2020. However, the 1099 filed for this claimant listed the third digit of their SSN as an eight, when the correct number was a nine. The SSN was entered into HiRE correctly on February 9, 2021, but a corrected 1099 was not filed with the IRS. According to LWC, the incorrect SSNs were primarily the result of data entry errors made by the claimants.

LWC has not submitted corrected 1099s for claimants with incorrect 1099s due to issues in its HiRE system. During the course of our review of claimants whose benefits were over-reported to the IRS, we identified instances where HiRE generated additional 1099s for calendar year 2020 with over-reported unemployment benefit amounts and stored them in claimant HiRE accounts after LWC filed 1099s with the IRS. According to LWC, this issue was identified in March 2021, and LWC has not filed any of these additional over-reported 1099s with the IRS. LWC staff also stated that LWC has not contacted the affected claimants to notify them regarding their HiRE accounts containing inaccurate 1099s for calendar year 2020.

Based on our review of a targeted selection of claimants, it appears that HiRE incorrectly identified the overpayment balance and/or withheld benefit amounts as payments to claimants and generated new, inaccurate 1099s for 10,791 additional claimants after LWC's initial generation of 1099s. These additional 1099s overstated these claimants' benefits by \$8.6 million.⁸ For example, the claimant previously identified as having \$61,698 of benefits over-reported to the IRS, received more than one 1099. This claimant was issued an additional 1099 that was not filed with the IRS but was added to the claimant's HiRE account. This additional 1099 stated that the claimant was paid \$197,550 or \$189,246 more than the claimant was paid in unemployment benefits during calendar year 2020.

Due to this system error, LWC staff is now manually reviewing the claimants who had additional 1099s generated to determine their accuracy. LWC staff stated that it has three years from the issuance of the original 1099s for calendar year 2020 to file corrected 1099s with the IRS. However, claimants affected by this issue may not know which 1099 in their HiRE account is correct, as both their correct and incorrect ones are available to them.

Recommendation 1: LWC should establish processes to review and test its system's programming for calculations related to 1099s prior to implementation of new programs.

Summary of Management's Response: LWC partially agreed with this recommendation and stated that it has processes in place to verify the accuracy of 1099s prior to filing under normal operating conditions, but it was virtually impossible to

⁸Due to HiRE generating additional 1099s, the amount over-reported on 1099s for the 1,776 claimants over-reported to the IRS increased from approximately \$1.5 million to \$4.3 million.

thoroughly review each filing within the required turnaround timeframe during the period in question.

Recommendation 2: LWC should file corrected 1099s with the IRS for any previously filed 1099s that do not accurately reflect the amounts of unemployment benefits paid to claimants to reflect the appropriate amount.

Summary of Management's Response: LWC agreed with this recommendation and stated that these corrections are in progress and will be submitted as soon as possible.

APPENDIX A: MANAGEMENT'S RESPONSE



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John Bel Edwards, Governor
Ava Cates, Secretary

Office of the Secretary

May 11, 2022

Mr. Michael J. Waguespack, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Mr. Waguespack,

The Louisiana Workforce Commission (LWC) respectfully submits its response to the report, *Unemployment Insurance Program: Accuracy of IRS Form 1099-G filings*.

Initially, it is pertinent to note the report correctly reflects that LWC completed the processing and filing of the IRS Form 1099-G filings with 99.7% accuracy. As with all processes, however, the LWC strives for 100% accuracy and will continue to do so.

In response to the findings included in the report, with respect to Recommendation 1, the LWC concurs in part that processes should be established to review and test its system's programming for calculations related to 1099s prior to implementation of new programs. Note that the findings outlined in this report were based on 1099-G tax forms for calendar years 2020 and 2021. During this period, at the height of the Covid-19 pandemic, LWC was tasked with administering thirteen (13) different unemployment benefit programs, all of which had its own rules and requirements for implementation. LWC's systems were designed to administer only two (2) benefit programs at a time. Under normal operating conditions, LWC has processes in place to verify the accuracy of 1099s prior to filing. During the period in question, however, it was virtually impossible to thoroughly review each filing for 100% accuracy within the required turnaround timeframe.

With respect to Recommendation 2, LWC concurs that it is necessary to provide corrected 1099-G tax forms. Prior to this audit, the LWC had already begun to identify the incorrect 1099-G forms and submit the necessary corrections to the Internal Revenue Service (IRS). These corrections are in progress and will be submitted as soon as possible.

Note also that the individual taxpayer can make adjustments to an incorrect 1099-G at the time of filing their tax returns. This can either be completed by the individual or the taxpayer with the inclusion of a statement explaining the difference in the actual 1099-G reported data and the amount submitted via their tax return. In the event that a taxpayer would contact the LWC, an audit of their personal and payment information is conducted and verified with their 1099-G for accuracy. Should any discrepancy be found, the existing 1099-G is corrected and provided to the individual.

This agency is committed to ensuring that our UI system runs efficiently for the benefit of those individuals that depend on it, and will remain focused on improving the system for the State of Louisiana as a whole.

Should you have any questions or need additional information, please feel free to contact my office at 225-342-3001.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ava Cates".

Ava Cates
Secretary

Recommendation 1: *LWC should establish processes to review and test its system's programming for calculations related to the 1099s prior to implementation of new programs.*

The Louisiana Workforce Commission (LWC) concurs in part. The LWC has processes in place to verify the accuracy of the 1099s prior to implementation. This audit identified .3% of the total universe to have an error. Testing a sample of seven hundred thousand two hundred fifteen (700,215) 1099s, would likely not have identified these discrepancies due to the numbers identified. The 1099-G processing timeframes for tax year 2020 required rapid review and turnaround and a 100% review is not possible. The deadline to submit this data to the individuals is the end of the month of January (31 days from the last payment). This deadline includes any additional timelines that must be met to print and mail these forms. These timelines allow the agency approximately 15 business days to test, correct, implement and audit. The remaining approximately 5-7 business days is needed to process such a large volume of mail.

Recommendation 2: *LWC should file corrected 1099s with the IRS for any previously filed 1099s that do not accurately reflect the amounts of unemployment benefits paid to claimants to reflect the appropriate amount.*

The Louisiana Workforce Commission (LWC) concurs.

APPENDIX B: SCOPE AND METHODOLOGY

This report provides the results of our Data Analytics Unit's performance audit of the Louisiana Workforce Commission (LWC). We conducted this analysis under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. This audit covered the unemployment benefits paid from January 1, 2020, through December 31, 2021. Our audit objective was:

To determine if LWC filed accurate Internal Revenue Service Form 1099-Gs with the Internal Revenue Service.

The scope of our audit was less than that required by generally accepted *Government Auditing Standards* issued by the Comptroller General of the United States. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. To answer our objective, we performed the following audit steps:

- Obtained unemployment insurance data from LWC, including information regarding applications, claimants, and benefit payments.
- Obtained 1099 data from LWC for calendar years 2020 and 2021.
- Analyzed unemployment benefits documents and 1099 documents in LWC's HiRE system to identify causes for inaccurate 1099s.
- Researched and reviewed laws, rules, regulations, executive orders, and policies regarding the administration of and eligibility for unemployment insurance benefit programs and the issuance of 1099s.
- Reviewed HiRE documentation for a targeted selection of 100 claimants with high amounts of over-reported unemployment benefits on HiRE generated 1099s.
- Sent results to LWC for review to determine why these issues occurred and incorporated feedback into the report draft.