

COVID - 19

# BENEFIT WAGE Audits

## Employers can expect a rise in the number of wage audits because of COVID-19.

As the COVID-19 pandemic continues to impact businesses across the country, the states continue to see an increase in the number of individuals who are filing for and collecting unemployment benefits. Along with this rise in unemployment claims, comes the rise in potentially [fraudulent activity](#). While everyone is doing their part to report suspected fraud, the State Workforce Agencies are also checking for potential fraud with benefit audits.

Benefit audits can take on several different forms, but employers can expect to see an exponential increase in these audits as the states turn their focus to identifying potential issues of fraud in the system. This document outlines the different types of audits that are issued, provides insights on who will be most impacted and provides guidance on how to best handle this influx of benefit audits.

### Types of Benefit Audits

The UI Integrity Act benefits employers who are good stewards of the unemployment program. The key benefits include reducing fraudulent claims and eliminating overpayments of unemployment benefits. The Act helps protect the overall system and allows employers to benefit from reduced tax rates by making sure improper and fraudulent payments are caught and corrected. A by-product of this important legislation is that employers are receiving increased numbers of mandatory wage audits from the state agencies. While necessary and beneficial, these wage audits create additional burden for employers, specifically as it relates to New Hire Audits, Benefit Accuracy Measurements Audits and Quarterly Wage Audits.

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### *New Hire Audits*

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- New Hire audits are generated when the State Workforce Agency crossmatches unemployment payments against the National New Hire database.
- States are looking to see if benefits were still being paid after the claimant began working for their new employer.
- This crossmatch initiative is federally mandated as a part of the UI Integrity Act.
- We do not expect to see a significant rise in audits coming from the New Hire crossmatch process.

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### *Benefit Accuracy Measurement (BAM) Audits*

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- The Benefit Accuracy Measurement (BAM) audit is designed to prevent both error and fraud in the Unemployment Insurance Program.
- BAM Audits are random audits from a "sample" group of claimants, selected each week to test the accuracy of the Unemployment Insurance benefits paid. Another "sample" group of claimants is randomly selected each week to test the accuracy of Unemployment Insurance determinations regarding claimant eligibility.
- These audits are more detailed in nature, typically requiring both separation information and wage details so the state can review their processes to ensure they are making accurate determinations and properly paying benefits.
- State Workforce Agencies are required to sample at least 3% of their claims and an individual claimant can be selected more than once for this random audit.
- Since unemployment has risen year-over-year by up to 14%, employers can expect to see a significant rise in BAM audits based on the volume of COVID-19 claims.

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### *Quarterly Wage Audits*

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- In addition to the methods listed above, State Workforce Agencies also conduct a quarterly crossmatch of unemployment payments made to earnings reported on employers' quarterly contribution reports.
- The states are looking for instances of wages and benefits in the same week that could be an indicator of fraud or improper payments.
- These audits typically request wages for a specific week or set of weeks where they suspect that both earnings and benefits were paid during the same time period.
- We expect to see an exponential increase in the number of wage audits that are issued by the states due to the increases in fraudulent activities and the sheer volume of claims.

#### **Who will be impacted by Wage Audits?**

Presumably, all employers will see an increase in wage audits due to the increase in claim activity attributable to COVID-19.

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*To put this in perspective, since the pandemic started in March 2020 the average number of weekly claims filed was 2.8 million claims per week.  
Prior to March 2020 the average number of weekly claims filed was around 218,000.*

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If your workforce was largely unaffected by COVID-19, you can still expect to see an increase in BAM audits simply because the overall claim volume has increased. Employers who had to reduce the hours of their employees or implement rolling furloughs should expect to see a significant increase in wage audits due to the nature of the quarterly audits. Additionally, employers who filed for and received Payroll Protection Program (PPP) loans to cover wages for their employees may see an increase in benefit audits due to the PPP loans being paid out after employees started receiving benefits. The states will be looking for wages and benefits in the same week and may require this additional validation to ensure proper payments were made and to detect any potential of fraud.

**Do I need to respond to these audits?**

Yes! Employers must respond to these audits as quickly as possible to protect tax rates. Responding to wage audits can have a positive impact on your overall tax rate. When an overpayment is detected as the result of the audit, the state will credit your account for the benefits overpaid thus reducing your overall tax liability. This not only protects your bottom line but the overall integrity of the Unemployment system.

Additionally, some states will impose a monetary penalty to employers who do not respond to wage audit requests. These penalties can range from \$15 - \$100 per audit. Thomas & Company responds to these audits provided we have the wage information for your employees. The payroll files that are shared with us for Employee Wage Verification (EWV) services provides us with the detailed payroll records needed to respond to nearly all these audits thus eliminating the burden from our clients. In the cases where additional information is needed, we will reach out for the details needed so that a response can be sent on your behalf.

Clients who do not currently provide a payroll file feed or utilize our EWV service are not able to capitalize on this feature of our service. In those cases, Thomas & Company will forward the wage audits within 24-48 hours of receipt in our office. If you are interested in exploring the options available to for handling EWV requests and wage audits should contact their Client Relationship Manager for more detailed information.

Our office has been monitoring any increases in unemployment related activity such as this since our inception and the COVID-19 pandemic is no exception. We will continue to provide updates to our clients as they become available. As always, if there are any questions please do not hesitate to contact us or visit our website at [www.thomas-and-company.com](http://www.thomas-and-company.com)