

NATIONAL CREDIT UNION ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL

**AUDIT MEMORANDUM: EMPLOYEE  
STATE TAX WITHHOLDINGS**

Report #OIG-05-9  
September 30, 2005



A handwritten signature in black ink, which appears to read "William A. DeSarno".

William A. DeSarno  
Inspector General

Prepared by:

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**TO:** J. Leonard Skiles  
Executive Director

**FROM:** William A. DeSarno  
Inspector General

**DATE:** September 30, 2005

**SUBJECT:** Employee State Tax Withholdings  
Report #OIG-05-9

The National Credit Union Administration Office of Inspector General (NCUA OIG) performed a proactive review of NCUA employees' compliance with personal state income tax obligations. The NCUA OIG initiated this engagement as a joint audit and investigative engagement.

## **OBJECTIVE**

The overall objective of this engagement was to identify any NCUA employees who may be delinquent in paying state income taxes. Our two specific objectives were to:

- Identify NCUA employees who had \$0 state income tax withholdings and;
- Identify NCUA employees with \$0 state income tax withholdings and whose address is a post office box in a non-taxable state.

## **SCOPE AND METHODOLOGY**

The scope of this engagement was to review and analyze employee state tax withholdings in 2004, as reported on employee Internal Revenue Service (IRS) W-2 forms. The OIG plans to conduct a separate analysis regarding employees' Federal tax withholdings.

The OIG obtained a listing of NCUA employee 2004 W-2s from the General Services Administration National Payroll Center with the assistance of NCUA's Deputy Chief Financial Officer. We sorted the W-2 records by:

- Ascending dollar amount of state withholding taxes
- Ascending dollar percentage of state withholding taxes to gross wages
- Alphabetical listing of employee name with state filing address

Since this was a limited scope review, this engagement was not performed in accordance with Generally Accepted Government Auditing Standards.

## **BACKGROUND**

Tax abuse by federal employees and contractors has received recent congressional attention. The United States Government Accountability Office (GAO) recently performed an audit (report GAO-05-637) to determine the magnitude of unpaid taxes of contractors at federal civilian agencies. GAO reported that records showed about 33,000 civilian agency contractors owed over \$3 billion in unpaid federal taxes as of September 30, 2004. Federal employees are expected to satisfy their just financial obligations. Failure to do so violates the Standards of Ethical Conduct for Employees of the Executive Branch (5 C.F.R. 2635.101 (b) (12)).

## **ANALYSIS**

There were a total of 1,011 employee W-2 records for 2004. Ten states do not have a personal income tax on employee wages.

We identified five employees who had \$0 state income tax withheld and resided in a personal income taxable state. Three of those employees had wages under \$8,100. The other two employees had gross wages of \$40,836 and \$70,015. In addition, we identified two employees who had an effective state tax withholding rate of 0%. These two employees resided in personal income taxable states. Their wages were \$55,221 and \$29,872.

We also identified one employee who had a residence address listed in a non-taxable state, but had a taxable state listed for withholding tax purposes. This employee had \$0 in state withholding taxes for the year.

Finally, we identified four employees who had post office boxes listed for their addresses. These post office box addresses were in non-taxable states but were located approximately 50 miles or less from a taxable state border.

## **CONCLUSION**

Overall, our review revealed relatively few employees with no state withholding taxes or questionable post office box addresses. The few instances of questionable withholdings were referred to the OIG Director of Investigations for investigative consideration.

### **Distribution:**

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