

USE OF ADMINISTRATIVE RECORDS IN THE BUREAU OF LABOR STATISTICS' COVERED EMPLOYMENT AND WAGES (ES-202) PROGRAM

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ABSTRACT

For nearly 50 years, the Bureau of Labor Statistics (BLS) and other Federal statistical agencies have been using the employment and wages data generated from the administrative records of the Unemployment Insurance (UI) system of the State Employment Security Agencies as a key component of their statistical programs. Since State and Federal UI coverage of workers in this country is approximately 96 percent of nonagricultural employment, the Covered Employment and Wages (ES-202) program provides a virtual universe count each quarter by detailed industrial and geographical classifications. The use of these administrative records provides BLS with an existing mechanism of data collection, editing and compilation that limits the program costs and employer burden. In addition to these advantages, there are also certain difficulties associated with using these data. The UI program is operational in all 50 States, the District of Columbia, Puerto Rico and the Virgin Islands, and these States must adhere to selected Federal guidelines; however, the States also have varying flexibility in administering their own programs.

This paper describes how BLS deals with existing State differences to insure a uniform set of standards for the administrative records that comprise this important statistical program. The paper will also review the State's and Bureau actions to deal with the ever changing employer/employee relationship and the increasing employer use of payroll/tax agents or leased payroll/tax software to prepare various reports for the State and Federal entities.

KEYWORDS

Unemployment Insurance, State Employment Security Agencies (SESAs or States), Multiple Worksite Report, Quarterly Contribution Report, Status Determination Form

1. INTRODUCTION

The Covered Employment and Wages (ES-202) program is a cooperative endeavor of BLS and the State Employment Security Agencies (SESAs) in the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands. The ES-202 program has three principal components: the Annual Refiling Survey (ARS), the Quarterly Unemployment Insurance (QUI) Name and Address File, and the ES-202 Report. The QUI file contains the edited micro level data of businesses (employment, wages, address information and other business identification information) submitted by the SESAs to BLS each quarter. The ES-202 Report contains the macro level data of employment and wages submitted by the SESAs to BLS each quarter.

The culmination of State operations concerning the ES-202 Report is the creation of computer tapes sent by the SESAs to BLS each quarter which contain data from the administrative files of the State UI programs supplemented by data from the Multiple Worksite Report (MWR) and the Report of Federal Employment and Wages (RFEW). These ES-202 Report tapes contain monthly employment and quarterly wages information at the four-digit Standard Industrial Classification (SIC) and county level for both private and government ownerships. In addition to providing monthly employment and total quarterly wages, SESAs also include the number of establishments, the amount of wages subject to UI tax (taxable wages), and employer contributions (taxes) to the UI fund on ES-202 Report tapes. For the first quarter of each year, the ES-202 Report data are provided in a more detailed format, disaggregating the four-digit county-level summarization into as many as 10 size classes, based on the March employment for each establishment in the county/industry grouping. The employment and wages data produced by the ES-202 program represent the universe of workers covered under State UI laws (this includes the private sector, State and local governments) as well as civilian workers covered by the program of Unemployment Compensation for Federal Employees (UCFE). Because of this broad coverage, the ES-202 program provides a virtual census of nonagricultural employees and their wages. As the

most complete source of monthly employment and quarterly wages information by detailed industry and county, ES-202 data figure significantly in many economic and statistical applications. This includes UI program administration, macro-economic research, survey sampling and benchmarking, and micro-economic analysis. The Bureau of Economic Analysis also uses the macro level ES-202 data in the preparation of the personal income component of the Gross Domestic Product (see appendix A). Nationwide, in 1993, Federal and State UI programs covered 109.4 million full- and part-time workers who received \$2.88 trillion in pay. ES-202 data were collected for approximately 6.7 million employer establishments in 1993.

The UI program is authorized by both Federal and State laws. The Employment and Training Administration (ETA) of the U.S. Department of Labor (DOL) oversees the State UI programs and carries out the Federal obligation of financing their activities. While ETA insures that each State's program complies with the minimum standards set by Federal law, each State has the discretion to develop and administer a UI program which is best suited to the conditions prevailing within the State. Each of the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands has approved UI programs. Although there are slight differences in State laws, the State records created in the administration of the UI program have substantially consistent core data elements and coverage provisions.

BLS, as a user of UI program data, cannot directly control the procedures and processes SESAs use for collecting and maintaining the UI administrative and accounting data. For example, BLS has no control over the assignment of the UI account number used by the SESAs to identify employers. Through a cooperative agreement, however, the Bureau contracts individually with the Labor Market Information (LMI) unit of each SESA to provide selected UI data for statistical purposes. It is through this contractual process that BLS establishes standards in regard to the quality and types of data transmitted.

2. SOURCES OF THE DATA

Although all of the data in the ES-202 program originate from employers, the data are by two different organizations within the SESA. It is important to note the distinction between the two since one is outside of the direct control of BLS.

The organization responsible for the primary input to the ES-202 program is the individual SESA's UI program which is administered by DOL's ETA. Each State UI program collects and maintains administrative record data and business identification information on employers who are subject to State UI laws. The UI program provides these micro, or employer-level, data to the LMI research and analysis unit of the respective SESAs. The LMI unit then supplements and processes these data for inclusion in the ES-202 program.

The second organization responsible for inputs to the ES-202 program is the LMI unit itself, which is the BLS partner in the Federal/State cooperative statistical programs. There are three areas in which they directly gather data to enhance the information from the UI administrative files. First, the LMI staff supplement some of the data provided by UI to obtain a greater level of geographic and industry detail. Specifically, they collect employment and wages data for the individual establishments of most multi-establishment employers, which are not separately reported on UI administrative records (see section on the Multiple Worksite Report). Second, the LMI staff directly collects data from Federal government agencies each quarter to add the employment and wages of workers covered under the UCFE program, as they are not included in the State UI administrative database (see section on the Report of Federal Employment and Wages). Third, the LMI staff is responsible for conducting the ARS, which, over a three-year period, contacts the universe of UI-covered employers to verify their location, industrial activity, auxiliary status, and type of ownership. Updated classification information received from the survey is incorporated in the ES-202 program data each year in the first quarter (see section on the ARS).

3. DATA COLLECTION AND REVIEW

In order to understand the scope of the ES-202 program in the States, it is necessary to describe the procedures used to generate the quarterly transmittals of the ES-202 micro and macro deliverables (see appendix B).

3.1 Status Determination

All new employers which become subject to UI coverage are required to file a Status Determination Form with the UI unit of the SESA (see appendix C). This form, which varies from State to State, is used to determine an employer's tax liability under the State's UI laws and to collect administrative information such as the employer's Federal Employer Identification Number (EIN). The Status Determination Form also requests information on which the initial classifications for industrial activity, location (county but township in the New England area), auxiliary (i.e., warehouse, central administrative office, research and development office, etc.), and ownership (private sector, or Federal, State or local government) codes are based. These codes are assigned by the LMI staff. If there is insufficient information on the Status Determination Form, the employer will either be contacted by telephone or mailed the Industry Classification Statement (All Industry Form--see appendix D) to obtain the necessary information. After employer liability is determined, the SESA UI unit establishes an account for the employer with a UI account number. Most new employers are aware of their UI liability and request the SESA to supply a Status Determination Form when they begin their business operations. Some liable employers, usually small ones, fail to file a Status Determination Form. These employers may be discovered through information on new firms applying for EINs supplied by the Internal Revenue Service (IRS) to the SESA each quarter. Other means of discovering newly liable employers are through the UI claims process and UI field auditor investigations.

3.2 Quarterly Contribution Report (QCR) and the Report of Federal Employment and Wages (RFEW)

All liable employers are required to file a QCR with the SESAs for their UI accounts (see appendix E). These reports, like the Status Determination Forms, are administered by the UI program and also differ in design for each State. All of the QCR forms, however, request employment, wages, and UI tax information necessary for the operation of the UI tax system and important for statistical purposes to the ES-202 program. Employers are asked to report, among other items, the total number of covered workers (full and part-time) employed during the pay period(s) which includes the 12th of each month in the quarter and the total payroll for the quarter. This report is mandatory for employers with a single location as well as employers with multiple locations in the State. The latter group of employers is allowed to report a summary of the data for all of their establishments covered under the State UI account on the QCR. Therefore, establishment-level data for these employers do not exist in State UI administrative files.

Many private employers do not actually complete their own QCR forms for the State UI unit, but instead contract with a third party (payroll/tax providers) to prepare and file these reports on their behalf. This third party may be a national or locally-based accounting firm or it may be one of a number of payroll processing firms which specialize in providing payroll and tax preparation services. In such cases, the employers provide the necessary information to the accounting or payroll processing firm, which in turn reports directly to the State UI unit. In other instances, employers use payroll/tax software purchased from third party firms to prepare their own QCR forms for the State UI programs. More detail on payroll/tax providers and payroll/tax software developers will be presented later in this paper.

Federal agencies, whose civilian employees are covered under the separate but comparable UCFE program, do not file QCR forms with State UI programs but instead report employment and wages data directly to the SESA's LMI unit. Prior to mid-1993, each State LMI unit mailed out its own specific Federal government data collection form to Federal agencies (or their authorized payroll authorities) which have installations in their State. These State-specific forms were replaced with the BLS-standardized Office of Management and Budget (OMB)-approved Report of Federal Employment and Wages (RFEW--see appendix F).

3.3 Multiple Worksite Report (MWR)

Major changes in the collection of data from multi-establishment employers were introduced with the implementation of the BLS Business Establishment List (BEL) project in 1990 and 1991. Prior to that time, the detail of data for employers operating in more than one location and/or industry in a State was limited. Only those multi-establishment employers who had 50 or more employees in secondary county locations and/or four-digit industries were asked to provide a breakdown of employment and wages data by county and industry. This information was collected on forms referred to as "Statistical Supplements" to the QCR. A different version of this form existed in each State.

Under the BEL project, multi-establishment employers which have 10 or more employees in secondary physical locations and/or industrial activities covered under one UI account are requested to provide establishment level data. This more comprehensive disaggregation of multi-establishment accounts has allowed the ES-202 program to have a database which is almost entirely at the establishment level, with more accurate industrial and geographic information for all establishments. The BEL project instituted the use of a BLS-standardized collection form to gather the additional data from multi-establishment employers. The MWR replaced the State-specific Statistical Supplement forms that the LMI units previously used to collect county-level data from multi-establishment employers (see appendix G).

Data collection procedures for multi-establishment employers differ from those for single units. For multi-establishment employers, the LMI unit of the SESA is responsible for the mailout, processing, and review of the MWR forms each quarter. As part of this process, multi-establishment employers are asked to verify the business identifying information (trade name, worksite description, and physical location address) for each establishment (worksite) that is computer-printed on the MWR. In addition, the employer is requested to provide the employment for each month (using the reference period) and total wages for each worksite for the given quarter.

In September 1992, BLS developed a standardized format to collect MWR data by magnetic media. A booklet is available for employers containing this format including SESA contact information and magnetic media specifications (see appendix H). A revised version of this booklet will be available by April 1995. Efforts have been made to reduce employer reporting burden especially for the larger employers with establishments in more than one State. BLS encourages these large employers to submit MWR data magnetically to a central collection facility. The central collection issue is discussed later in the paper.

3.4 Delinquent and Missing Data

Every quarter, a relatively small number of employers fail to submit either a QCR, MWR, or RFEW. Others may submit incomplete reports, typically QCRs with missing employment data. Delinquent and missing data notices are sent to these employers, as appropriate. Usually the SESA unit which initially mailed the form is responsible for this follow-up. Therefore, the UI unit generally contacts employers who do not complete the QCR, while the LMI unit pursues delinquent MWRs and RFEWs. There are a few States where the UI unit does very limited follow-up on employment data missing from QCRs. In these instances, the LMI unit assumes this responsibility. The UI unit is more concerned with the total wages data because this figure is used to calculate the taxes owed by the employer. The timing and number of follow-ups for delinquent and incomplete reports varies slightly in each State, but every attempt is made to minimize the amount of missing data on the ES-202 file. For those employers who fail to respond to follow-up requests, the data are imputed, generally by employing methods which use historical data for the establishment. Currently, a new imputation methodology which emphasizes a current quarter industry trend is being tested with data from several States.

3.5 Editing

Micro data collected on the QCR, MWR, and RFEW are edited and corrected by the State LMI staff as necessary. The micro data, including imputed values, are then aggregated to the appropriate ES-202 macro-level cells, including the size class break-outs for first quarter. The LMI unit then edits and updates these macro records, where necessary, using a standard BLS-designed macro data editing system. Both the micro edit and the macro edit include checks for invalid and inconsistent data as well as checks for large and unusual employment and wages fluctuations between and within quarters. The macro edit review typically is conducted two to four weeks before the ES-202 Report is due at BLS. Only a small percentage (approximately five percent) of macro records on a State's file will be flagged by the macro edit for review. Even fewer records will require corrections. Many records which appear in the edit output listing are flagged because of fluctuations in the employment and/or wages data. Such situations are reviewed and most are found to be valid. LMI staff usually annotate their research efforts for BLS by using an appropriate comment code for that particular macro record. These standard comment codes are two-digit codes which describe various types of economic activities. Up to three codes can be permanently stored on a macro record each quarter.

After making corrections and adding comments to the summarized file, States submit the macro data on a computer tape or cartridge in the standardized ES-202 Report format to the BLS national office, where it is due five months after the end of the reference quarter. The data are again processed through the macro edit, this time by BLS. Other questionable data may be identified at this stage by BLS regional and national office staff and brought to the attention of the State for resolution. State staff perform the necessary research on micro-level records comprising the macro record in question and provide explanations and/or corrections, typically at the macro-level. Since the ES-202 Report macro files have already been sent to Washington, updates at this point are prepared by BLS regional office staff who access the data stored at the mainframe computer services center in Washington. States are responsible for updating both their own macro data and the underlying micro data. Some States correct their micro data first and reaggregate either the affected parts of the file or the entire file; others make no correction to their micro and/or macro data. The latter situation may occur because of a "freeze" or lock on the data files imposed by some State laws and/or regulations.

The ES-202 Data Processing Schedule presents an overview of the ES-202 data flow described above in a time-line format (see appendix I). The time-line clearly illustrates the over-lapping nature of the ES-202 processing and the States' need to work on as many as three quarters of data simultaneously. The ES-202 Micro Data Processing Chart also contains a flow chart of the collection and edit processes for micro data (see appendix J).

3.6 Annual Refiling Survey

Every year, an ARS is conducted by the SESA LMI unit to verify and update, if necessary, the industry, auxiliary, geographic, and ownership codes which were initially assigned to establishments from information on the Status Determination Form. This survey is also used to collect and verify physical location addresses for single-establishment employers (see appendix K) and to identify new multi-establishment employers. Once an employer is identified as a multi-establishment employer, these units in succeeding years will receive the Industry Verification Statement designed for multiple worksites (see appendix L). Approximately one-third (or over 2,000,000) of the employers are surveyed each year, so that after a three-year cycle, the classification information for virtually all employers on the file will have been reviewed.

An output of the ARS is the ARS Control File which produces the Code Change Supplement (CCS). This file lists, at the establishment level, changes introduced to update the SIC codes, ownership codes, and/or county codes. CCS records are then aggregated by county, ownership type, and four-digit SIC and used in the editing process of the ES-202 Report to account for macro-level employment and wages fluctuations caused by reclassifications. Since these code changes are introduced in the first quarter, the ARS Control File is only transmitted to the BLS national office once a year by July 31, prior to the receipt of the first quarter ES-202 Report. BLS edits the code changes on the CCS to ensure their validity before integrating the information into the macro edit system. The CCS data are also made available to the BLS Current Employment Statistics (CES) program staff in Washington and in the States. These staff use the data in their benchmarking process by determining the December to January employment changes that occurred due to industry, county or ownership reclassifications. Another use of the Control File is to "date stamp" the BLS national office micro database so data users know when industry codes were last changed or verified. Physical location addresses are also collected from the Control File and updated to the micro database.

4. BLS STANDARDIZED PROCESSING SYSTEMS

Standardized ES-202 processing systems were developed by BLS to improve the data quality of these administrative records. These standardized systems also control program costs and improve standardized processing, editing, and imputation methodology in the SESAs. The BLS standardized ES-202 processing systems that have been exported to the SESAs are the Exportable ES-202 System (EXPO), the Maine PC-202 System, and the Annual Refiling Control System (ARCS).

4.1 Exportable ES-202 System

EXPO is a series of computer programs and data files designed to efficiently produce all ES-202 program deliverables. The system was developed by the Utah Department of Employment Security under the direction of BLS. It consists of 11 data files, 70 Customer Information Communication Systems (CICS) screens, and 54

batch programs configured to operate in 39 batch jobs. The system will interface with the ARCS Control File, the Automated Current Employment Statistics (ACES) registry file, and through State specific programs, with State tax files.

EXPO was designed to be user-friendly. It features on-line edit, file inquiry, and maintenance capabilities. It produces numerous "edit" and internal operating reports, as well as customized reports which can be used to fill general requests for macro level data. The system produces all data and reports necessary to meet BLS ES-202 and QUI contract requirements. EXPO is operating in 32 SESAs and is scheduled to be installed in six additional SESAs during FY 1995. As an alternative method of processing, the EXPO team in Utah has developed a PC version of the system as well. This version is scheduled to be installed in four SESAs during FY 1995 (two current mainframe EXPO States and two new EXPO installations).

4.2 Maine PC-202 System

The Division of Economic Analysis and Research in Maine's DOL (SESA) has developed a PC ES-202 System which is similar to the EXPO mainframe ES-202 system. This PC system decreases dependency on the data processing unit, lowers data processing costs, and provides greater control and flexibility of ES-202 processing. The Maine PC-System's greatest limitation is storage capabilities which becomes a problem for large States; however, rapid improvements in technology are expected to mitigate this problem in the future.

4.3 Annual Refiling Control System

In 1992, BLS developed the ARCS, a computer-based system exported to the SESAs, to manage the ARS and the introduction of the MWR. The ARCS was designed to use efficient technology for printing forms and processing survey responses. ARCS provides the States with a standardized method to process survey results more efficiently, especially for employers with more than one establishment within a State.

An important output of ARCS is a variety of management reports which assist the States in conducting the ARS. Two management reports are created as electronic files as well as listings. These files can be transmitted to BLS to satisfy all requirements for periodic status reporting.

ARCS provides essentially the same editing methodology as BLS uses on other deliverables, especially the QUI file. Corrections to the Control File may also be made to the State's own files, or preferably will be mechanically passed from the Control File. In this respect, ARCS offers the means to improve overall data quality as well as to efficiently manage this large survey's operations.

5. LACK OF STANDARDIZATION AMONG UI OPERATIONS

As mentioned above, BLS has attempted to standardize its ES-202 program operations as much as possible. All States use the BLS-provided macro edit system, and the standardized processing systems (EXPO, Maine PC-202 System) will be required to be operating in all States in the near future. The forms used in the direct collection of data by the LMI unit (MWR, ARS, RFEW) have also been standardized.

As stated earlier in this paper, ETA is responsible for the oversight of the State UI systems and their compliance with the Federal Unemployment Tax Act. ETA has granted the States a certain amount of flexibility in operating their UI Program to meet individual State needs. All States must meet ETA's national UI "Desired Levels of Achievement" (program performance measures); however, the flexibility in the State UI systems including the processes, procedures, and forms design, present a unique challenge to BLS and its cooperating partners (the State LMI units) to ensure data consistency in their statistical programs.

An excellent example of this program diversity is the Status Determination Form used by the States to determine an employer's liability. As indicated earlier, this is the source of information used to assign the initial industrial, county, ownership and auxiliary codes. The amount of space provided to collect the information necessary to assign these codes varies from State to State. This has resulted in States using different phrases or questions to collect this information.

BLS has no authority to change the design or standardize State QCR forms, even though the current layout of some may contribute to certain employer's failure to provide accurate employment data. Clear, explicit instructions and definitions are important on the QCR forms so that employers will accurately report employment and wages data. Confusion sometimes arises because employment figures are requested for each month whereas the wages and tax data are reported on a quarterly basis. It is important for employers to be aware that the employment count for each month refers to those individuals on the payroll specifically for the pay period including the 12th of the month but that the total wages includes payment to workers who worked at any time during the quarter, and may in fact include payment for work performed in an earlier quarter. In other words, employees should be counted in the time period when they are actually working, but their wages are counted in the reference period (quarter) when they are paid, which often is on a lagged basis from when the work was actually performed. This distinction is not always clear to employers filing the QCRs.

6. DATA QUALITY INITIATIVES

BLS has recently initiated a number of special projects to focus on improving the quality of the data in these programs and providing more efficient data collection methods. These initiatives include several Response Analysis Surveys (RAS) which were followed by the Validation of Employment Totals Project (VET), the Employer Contact Project, and the efforts to begin the central collection of MWR data. During that same time period BLS also formed a technical working group with the Interstate Conference of Employment Security Agencies (ICESA) to assist in the review of the employment discrepancies which became apparent while comparing reported employment in the CES and ES-202 programs. ICESA is an association that represents the interests of the SESAs with DOL and with Congress. Their representatives on the workgroup were primarily SESA LMI staff who work on the affected programs.

6.1 Response Analysis Surveys

During 1991-1992, BLS became aware of the extent of employer use of service bureaus to prepare their payrolls and also, in many cases, to file their State UI QCR. In addition, the magnitude of companies using purchased or leased payroll/tax software became evident. Consequently, BLS launched a RAS of the 21 largest firms providing either this service or software. The goal was to determine the extent to which the software these firms used, sold or leased was meeting the criteria for determining the proper employment counts for both the QCR and the CES survey. The RAS examined three principal areas of employer reporting:

- 1) Proper reference period(s) - always the payperiod(s) that includes the 12th of the month,
- 2) Coverage - workers covered by UI or in the case of the CES program, the proper definition of its coverage, and
- 3) Method - what type of method is used to compute the employment count.

This RAS, which was conducted by personal visits in 1992-93, was so successful that the project was expanded to include approximately 250 smaller firms providing these services or software. The information for the firms in this second phase was collected in late 1993 by a telephone interview process. The third phase of this project, the State ES-202/CES Source Document RAS, is currently in progress. The purpose of this phase is to examine differences in the employment counts reported by employers for comparable establishments in both programs and also to develop a profile of respondent errors that can be used to spot potential employment reporting problems. This RAS is being conducted in 10 States (800 respondents/State) by State staff using BLS designed questionnaires and sample designs.

6.2 Validation of Employment Totals Project

As a follow-up to phase one of the RAS, BLS initiated the Validation of Employment Totals (VET) Project to work with payroll and tax filing service bureaus, as well as vendors of payroll and tax filing software, to validate and improve the accuracy of employment data reported quarterly to the cooperating State agencies. This project provides service bureaus and software vendors with payroll test data to be used with their systems to confirm that they produce employment counts that correspond to the BLS/SESA definition of employment. Ten firms were solicited by letters and personal visits in 1994 to participate in the project. In 1995, approximately 12

additional firms will be requested to participate in the project. BLS will also determine the feasibility of expanding the project to smaller companies providing the same type of services or products in 1996.

6.3 Employer Contact Project

In 1994, BLS began examining the records of employers who may be incorrectly reporting the same employment figure for each of the three months within a quarter on the QCR. The causes for equal employment for each month of the quarter could possibly indicate that the employer is reporting either the end of the quarter count or a wage record count which is the count of individuals who worked anytime during the quarter (not just the reference period). The establishments targeted for review have demonstrated this practice for two or more consecutive quarters where the employment reported is greater than 50. Throughout the year, BLS contacted some of the employers, who have establishments in more than one State, to obtain more information on the causes of this problem, and to educate them on how to report the correct employment count.

BLS staff tried to determine how these employment counts were generated, and then explained the proper method of reporting. The employers were encouraged to correct their method of reporting and generate a monthly employment count using the proper reference period. If the employer indicated that these changes to their system will be implemented, they were also asked to provide the employment counts generated using both the old method and new method. This procedure will provide the information needed to measure the impact of these changes on the ES-202 employment series. States are advised of which employers have been contacted on a periodic basis. They are also advised when the employer implements the correct employment counts. To date, BLS has contacted approximately 50 employers representing 275,000 employees.

6.4 SIC Quality Assurance

Quality assurance (QA) procedures were developed in 1992 to review and assess the quality of SIC codes assigned by State staff. The purpose of the QA process is to identify problem areas and develop an improvement plan, where warranted. The assessment phase includes a thorough review of the State's Status Determination Form, SIC coding, and training provided in order to improve the State coding operation. The BLS regional offices are responsible for conducting the QA reviews in the States for the coding operations associated with the Status Determination Forms and the BLS 3023 Forms (see appendices C, J, K). The regional offices review the work of the SIC coders and submit an analysis to the national office. The accurate assignment of SIC codes is crucial to BLS since most of the BLS data collection programs derive their samples from ES-202 data based on SIC and employment. The integrity of SIC coding is also important to public data users requesting data by industry and also to employers located in States where the UI tax rate is dependent upon the SIC code assigned to the employer. In the near future, BLS plans to expand the QA activities to include a follow-up of selected employers whose codes have changed to determine the reasons for the change (e.g., inaccurate initial SIC code assignment, economic activities changed, location change).

6.5 Coordination with ETA

In late 1994, BLS/ICESA workgroups issued a series of reports containing recommendations for improvement in the CES/ES-202 programs. One recommendation was for BLS to work more closely with ETA to resolve or minimize the limitations of using administrative records that were described earlier in this paper. Included in their specific recommendations was that the BLS national office should expand the efforts begun in 1993 in seeking the assistance of the UI staff of ETA to advise the States of possible limitations of the forms used to collect information from employers. To address the employment definitions on the QCRs, BLS in 1993 requested that ETA issue instructions to the States on the correct definition of employment that should appear on their QCR form and instructions and in other related materials (e.g., UI Employer Handbooks). This definition states "the monthly employment data reported on the Quarterly Contribution Report should be a count of all full-time and part-time workers who worked during or received pay (subject to Unemployment Insurance wages) for the payroll period which includes the 12th of the month." In discussing the correct definition of employment with various payroll service bureaus, BLS had been advised of the inconsistencies in definitions on current State QCR forms. ETA subsequently issued UI Program Letter No. 30-93 to advise the States of this problem and to provide them with the correct definition of employment. States were instructed to change their QCR form as soon as feasible. BLS continues to monitor the status of the States to correct their QCR forms.

BLS staff has been meeting with officials of ETA to discuss their concerns with other aspects of the UI system and to seek their assistance in bringing these issues to the attention of the State UI staff to facilitate a successful resolution. Some of the issues are listed below.

To further improve the employment counts, BLS recommended that ETA include a review of the employment counts on the QCRs in the recently introduced Revenue Quality Control procedures in which the States are required to participate. An alternative would be to include a review of the employment counts provided on the QCRs as part of the official ETA-UI audit process. BLS provided ETA with background material on this problem and the importance of these data, not only to BLS and State LMI staff but also to State UI staff as well. Improper employment counts can adversely impact the State UI average weekly wage estimate which is used in the formula to set the maximum weekly benefit amount that an individual can earn for one week of unemployment benefits.

Similarly, BLS also requested that the information collected on the States' Status Determination Forms be reviewed by UI staff in coordination with State LMI staff to ensure that the form provides adequate space and the necessary questions to properly assign the industrial, geographical, ownership, and auxiliary codes to each new employer.

BLS also requested that ETA assist BLS by informing the State UI directors of the need for BLS to obtain more accurate and timely information on predecessor/successor relationships and Federal EINs to improve BLS recent efforts to create an employer-based longitudinal file of establishments for research purposes.

6.6 Central Collection

In early 1994 BLS staff met to discuss all aspects of centrally collecting MWR data from large corporations that had numerous worksites in many states. Several proposals were developed and ultimately submitted to the States and regional offices for their review and comment. As expected, the comments were very diverse reflecting the difficulty in trying to reach a consensus with such a large group (more than 60 entities). During that same time period, BLS began preparations to open a Data Collection Center (DCC) in Chicago to centrally collect data from large multi-establishments companies participating in the CES program. The DCC began collecting data for this program in February 1995. Current plans are to expand this facility to accommodate data collection from other BLS Federal /State Cooperative Statistical Programs (including ES-202 MWR data) as soon as possible.

Based on State suggestions/comments to alleviate State workloads, BLS has pursued the central collection of data for the larger agencies of the Federal government using a magnetic medium. The National Finance Center (NFC) of the Department of Agriculture serves as a payroll processing center for the Agriculture, Commerce, Justice and Treasury departments and many of the larger independent agencies. The NFC processes the payroll checks of approximately 20 percent of the Federal nondefense employment. Discussions have also been initiated with the U. S Postal Service and the Defense Department to supply the RFEW data in a magnetic medium directly to BLS. Within the next few years, BLS plans to centrally collect all of the data from the Federal government for the ES-202 program. BLS staff have also been working with the Census Bureau to emulate their approach to collecting CES and MWR data using Electronic Data Interchange(EDI).

7. IMPACT OF DATA REPORTING BY PAYROLL/TAX PROVIDERS AND FIRMS USING LEASED OR PURCHASED PAYROLL SOFTWARE

After phase one of the RAS results revealed the amount of employment and wages data reported by the payroll processing industry and others using purchased or leased payroll software, BLS began developing a close, ongoing relationship with the American Payroll Association (APA) and the American Society for Payroll Management (ASPM). BLS felt the need to have a continuing dialogue with the payroll/tax providers, the payroll software developers, and employers using the "in-house" payroll systems. Since 1991, BLS has actively participated in the annual meetings of the APA and ASPM by providing information booths and participating on government panels to discuss correct employment reporting for the BLS surveys and State QCR forms. The principal target audience for the information booth and government panel presentations are those employers who have developed their own "in-house" payroll system. The APA and ASPM also published articles on this subject

in their associations' newsletters. Articles describing correct employment reporting have also appeared in publications of the Bureau of National Affairs, Prentice Hall Newsletters, Commerce Clearing House, and Thomason Professional Publishing. Also, proper employment reporting materials has been added to several payroll guides including the *Principles of Payroll Administration*, and *Payroll Practitioner's Compliance Handbook*, both published by Warren, Gorham, and Lamont.

8. EMPLOYEE LEASING

In the *1987 SIC Manual*, issued by the Executive Office of the President, Office of Management and Budget, SIC 7363 pertains to "Help Supply Services." This industry includes, but is not limited to, temporary help supply services and employee leasing services. Employee leasing companies, now known as professional employer organizations (PEO), lease employees to client firms on a contract basis. Many businesses, small businesses in particular, have found it financially advantageous to transfer their workers to employee leasing companies. This arrangement relieves businesses of human resource and administrative work, allowing more time to be devoted to the actual business, and offers their workers access to potentially better benefits (life and health insurance, retirement plans, etc.) that otherwise would not be affordable. The advantages gained by using a leasing company have led many employers to enter into this arrangement. A key aspect of the leasing firm/client relationship is that the employees of the client that are subsequently leased from the leasing firm, are now considered to be employees of the leasing firm. This situation leads to erroneous reporting of leased employees in SIC 7363, when in reality they are working in other industries.

8.1 Impact of Employee Leasing on the Administration of the UI Program

According to the KRA Corporation, the growth of the employee leasing industry is a recent phenomenon that has attracted the attention of many Federal and State officials, including DOL officials. Although employee leasing firms may provide numerous benefits for their client firms, government officials have expressed concern that this new employer/employee relationship may have a negative impact on certain government programs. To determine its impact on the UI system, DOL's UI Service (UIS) has contracted with the KRA Corporation to study the employee leasing concept. The purpose of the study is to provide insight into the employee leasing industry's impact on the UI program by surveying State UI tax administrators; provide estimates on industry size; conduct a detailed quantitative analysis; and, provide a comprehensive review of the available data and literature on employee leasing. One of the major research objectives of this study is to evaluate the impact of the employee leasing industry on State UI trust funds. The final report is scheduled to be completed by the end of May 1996.

8.2 Impact of Employee Leasing on BLS Data

The employee leasing concept creates a need for additional steps in our data collection process to ensure that the accuracy of industrial and geographical information is maintained. Employees who are leased by an employee leasing company/PEO to a client are considered to be engaged in the economic activity or business of the client. In the traditional employer-employee relationship, all the employees would have been reported on the payroll of what is now the client in a straightforward manner. With the leasing company-client relationship, the leased employees are on the payroll of the leasing company/PEO. The payroll of the client shows a substantial reduction--with possibly only one or a few employees--and the payroll of the leasing company shows considerable growth. Although the leased employees may legally belong to the leasing company, it is important for statistical purposes that they be reported in the industry and at the location of the client company. Unless employer reporting is modified appropriately as employee leasing services become more widespread, the economic activity in SIC 7363 will be considerably overstated, and activity in client industries understated by an equal amount.

8.3 Reporting Arrangements to Resolve Reporting Problems

BLS has requested that employee leasing organizations/PEOs reporting under a given UI account provide separate information for each location where leased employees work, even if these locations belong to the same client. In addition, the location of the employee leasing company, itself, should be reported as a separate worksite with employment and wages data included for only those employees who are engaged in managing the

leasing operation (for example, selling the leasing services and providing administrative support for the leasing company). This information should be reported on the MWR each quarter.

8.4 National Association of Professional Employer Organizations

In order to improve reporting by employee leasing firms, BLS has been working closely with the National Association of Professional Employer Organizations (NAPEO). BLS has been an active participant at the past two annual conventions (held in October 1993 and October 1994) by providing an information booth at both conventions and delivering a presentation at the last convention. Prior to the 1993 convention, BLS staff identified the MWR reporting status of attendees. MWR forms were distributed to those employers not presently completing the form with encouragement from BLS for these employers to complete and return the MWR to BLS. BLS staff also created an "Employee Leasing and the Multiple Worksite Report" demonstration diskette for distribution at both conventions. Following the 1993 convention, extensive follow-up was conducted to evaluate the MWR reporting status of these employers. Some Professional Employer Organizations (PEOs) are reluctant to report the names of their clients on the MWR form and consequently have not submitted the form to the SESAs. NAPEO is planning to establish a working group with BLS representatives in early 1995 to resolve these remaining issues.

In early 1995, an ICESA sponsored ES-202/CES workgroup will be established to study the employee leasing firm issue. This new team will include State representatives (LMI and UI) and Federal representatives (BLS and ETA) to address the reporting problems created by this recent change in employer/employee relationships.

8.5 Need for Separate Four-Digit Industrial Classification

The present system for industrial classification of businesses in the United States is scheduled to be revised by 1997. Currently, officials are studying various options for this revised system. The Help Supply Services' industry has expressed interest in establishing separate industries for temporary staffing services and permanent staffing services (i.e., professional employers, employee leasing companies). The establishment of separate classifications would provide statistical agencies the ability to more accurately identify employee leasing firms and thus assist in the process to obtain accurate employment and wages breakouts of their clients. A recent issue of *Benefit and Compensation Solutions* indicated that PEOs and other employee outsourcing activities will continue to grow in the future. Consequently, the proposed 1997 SIC Manual needs to recognize and deal with the continuing evolution of the employer/employee relationship or the SIC system will not produce meaningful industry statistics in the future.

9. POTENTIAL FUTURE CHANGES TO ADMINISTRATIVE RECORDS

9.1 Simplified Tax and Wage Reporting System

The Simplified Tax and Wage Reporting System (STAWRS) could affect the operations of the ES-202 program in the future. STAWRS is an initiative of the IRS, the Social Security Administration (SSA), DOL and the OMB to reduce the reporting burden of employers. The concept of wage reporting simplification is to provide a single point of contact for employers to file Federal and State wage and tax information, including UI. The concept provides for a variety of employer services, as well as information processing and redistribution to user agencies at the Federal and State levels. Also included is the concept of a harmonized wage code (HWC), which would standardize the definitions of wages, the components of wages, and the definitions of employer and employee, as well as provide for a single identifying number for employers to utilize in all wage and tax related transactions with the States and Federal government. State participation will be voluntary. This initiative is included in Vice President Gore's National Performance Review.

Two working groups were established in April 1994. These groups (HWC and STAWRS Operations Proposal) include approximately 70 key stakeholder representatives (DOL, IRS, SSA, State UI, State Revenue, employer community including service bureaus and privacy advocates). BLS has been a member of these working groups because of the use of UI administrative records and the need to ensure that BLS data requirements are addressed in the design of the STAWRS system. The Bureau of the Census has also participated in this project since the

source of their employment and wages data for small employers is derived from IRS Form 941. The Census Bureau's relationship with IRS is similar to BLS and thus also, need to ensure that their future needs are addressed by the STAWRS system.

10. CONCLUSION

ES-202 micro and macro data have proven to be a comprehensive source of high quality information on the economy at the National, State and metropolitan area levels. BLS and the SESAs strive to continue to improve the program's operations and the quality of the data. In the last decade, improvements to the program have expanded the potential uses of the data. In response to these requests, BLS plans to develop a longitudinal database to produce job creation/destruction and enterprise statistics. BLS has also begun developing long-term solutions to improve the efficiency of this program. In the future, SESAs will submit only micro level data to BLS. The BLS national office will aggregate these micro level data to produce the macro level data. Other initiatives include improving consistencies in program operations among the SESAs. BLS will continue to improve the ES-202 program, and, at the same time, work to meet the dynamic needs of their customers.

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APPENDICES

Appendix A.....	ES-202 Data Uses Chart
Appendix B.....	Input Documents to the ES-202 Program
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Appendix D.....	Industry Classification Statement (All Industry Form)
Appendix E.....	Quarterly Contribution Report
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Appendix L.....	Industry Verification Statement (Multiple Worksites--BLS 3023VM)
Appendix M.....	List of Acronyms

List of Acronyms

APA	American Payroll Association
ARCS	Annual Refiling Control System
ARS	Annual Refiling Survey
ASPM	American Society of Payroll Management
BEL	Business Establishment List
BLS	Bureau of Labor Statistics
CCS	Code Change Supplement
CES	Current Employment Statistics
DOL	Department of Labor
EIN	Employer Identification Number
ETA	Employment and Training Administration
ICESA	Interstate Conference of Employment Security Agencies
LMI	Labor Market Information
MWR	Multiple Worksite Report
NAPEO	National Association of Professional Employer Organizations
NFC	National Finance Center
PEO	Professional Employer Organizations
QCR	Quarterly Contribution Report
QUI	Quarterly Unemployment Insurance File
RAS	Response Analysis Survey
RFEW	Report of Federal Employment and Wages
SESA	State Employment Security Agency
STAWRS	Simplified Tax and Wage Reporting System
UI	Unemployment Insurance
VET	Validation of Employment Totals