

**NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL**

**AUDIT MEMORANDUM: EMPLOYEE
FEDERAL TAX WITHHOLDINGS**

**Report #OIG-05-11
November 22, 2005**



A handwritten signature in black ink, which appears to read 'William A. DeSarno', is positioned above the printed name.

**William A. DeSarno
Inspector General**

Prepared by:

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TO: J. Leonard Skiles
Executive Director

FROM: William A. DeSarno
Inspector General

DATE: November 22, 2005

SUBJECT: Employee Federal Tax Withholdings
Report #OIG-05-11

The National Credit Union Administration Office of Inspector General (NCUA OIG) performed a proactive review of NCUA employees' compliance with personal federal 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 federal income taxes. Our specific objective was to:

- Identify NCUA employees who had \$0 federal income tax withholdings

SCOPE AND METHODOLOGY

The scope of this engagement was to review and analyze employee federal tax withholdings in 2004, as reported on employee Internal Revenue Service (IRS) W-2 forms.

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 federal withholding taxes
- Ascending dollar percentage of federal withholding taxes to gross wages

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. Further, the IRS reported in October 2004, that 3.14 percent of federal employees and retirees had not paid their federal tax on time. 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.

We identified three employees who had \$0 federal income tax withheld in 2004. The employees had gross wages of \$72,328, \$26,480 and \$3,206, respectively. All three of the employees claimed to be exempt from federal income tax on their federal withholding tax forms. In addition, we identified two employees who had an effective federal tax withholding rate of 0%. These two employees had gross wages of \$99,996 and \$29,872, respectively. The former--with \$99,996 in gross wages--claimed a married tax status with 16 exemptions.

CONCLUSION

Overall, our review revealed relatively few employees with no federal withholding taxes. We referred the nominal instances of questionable withholdings identified above to the OIG Director of Investigations for investigative consideration.

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