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1974

ACCOUNTABILITY IN THE ADMINISTRATION OF UNEMPLOYMENT COMPENSATION IN MICHIGAN INSTITUTIONS OF HIGHER EDUCATION

By

Robert Morrell Lockhart

A DISSERTATION

Submitted to
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ABSTRACT

ACCOUNTABILITY IN THE ADMINISTRATION OF
UNEMPLOYMENT COMPENSATION IN MICHIGAN
INSTITUTIONS OF HIGHER EDUCATION

By

Robert Morrell Lockhart

The 1971 Amendments to the Michigan Employment Security Act extended compulsory coverage to Michigan institutions of higher education, effective January 1, 1972. Under the provisions of the Act, eligible former employees can draw unemployment compensation on the basis of service performed for an institution of higher education and for which the respective institution is held accountable.

The purpose of this study was to investigate opinions and experience of financial administrators of Michigan institutions of higher education with regard to accountability in the internal administration of unemployment compensation two years after the coverage has been in effect. Specifically, the study was structured to learn whether, in the opinion of financial administrators, departmental administrators should be held accountable for personnel actions which result in the payment of unemployment compensation.

The population under study consisted of 39 Michigan institutions of higher education. Included were all 13 public four-year colleges and universities and 26 nonpublic, nonprofit colleges. The

data sought were obtained through use of questionnaires sent to the chief business and/or financial officer of the 39 institutions, all of whom responded. Interviews with 15 of the respondents supplemented the data obtained from the questionnaires. The data and opinions expressed in the interviews were tabulated by both size and the public-private nature of the institutions in the study.

In the major findings of the study, neither size nor the public-private distinction was found to be significant although those from the public institutions expressed greater concern over expenditures attributable to this coverage than did those from the private institutions. Over two-thirds of those from the public institutions expressed the opinion that these expenditures were of moderate or great significance in relation to their institution's total operating expenditures as compared to slightly more than one-third from the private institutions.

A majority of the financial administrators believe that sound personnel practices can serve to minimize the incidence and duration of unemployment benefits paid to former employees. A majority also tend to favor utilization of budgetary controls incorporating financial incentives to enlist and assure the cooperation of those whose personnel actions may lead to the payment of unemployment compensation. Only one-third, however, believe such controls are essential.

To Sally, my wife; Scott, my son; and Heather, my daughter--for their understanding, patience and love.

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I wish also to make special note of appreciation to Messrs. Emery G. Foster and Paul V. Rumpsa, to whom I have reported while employed at Michigan State University during the past six years. Mr. Foster, who encouraged me to pursue a doctoral degree, served on my committee until his retirement two years ago. Mr. Rumpsa's understanding of the demands placed upon me as a doctoral student while serving as his assistant made my burden considerably lighter.

Finally, I wish to express my appreciation to two recent doctorate recipients, Drs. Joseph G. Rossmeier and Manual G. Diaz, who read portions of this dissertation and offered advice as the study progressed; and to my secretary, Mrs. Charles Ward, who graciously typed the several drafts which preceded this final presentation.

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CHAPTER I

THE PROBLEM

Statement of the Problem

Prior to January 1, 1972, public and private nonprofit institutions of higher education in Michigan were excluded from compulsory coverage under the Michigan Employment Security Act[1] which provides, in part, for the payment of unemployment benefits to persons unemployed through no fault of their own. Although the Act contained provision for election of coverage by such an institution of higher education, none are known to have exercised this option. Accordingly, they were not liable for contributions for the Michigan Unemployment Compensation Fund and former employees were not eligible for unemployment benefits on the basis of past service with these institutions. In compliance with the 1970 Amendments to the Federal Unemployment Tax Act,[2] however, the Michigan Employment Security Act was amended in 1971[3] to extend coverage for nonexcluded services performed for all institutions of higher education other than those operated by political subdivisions. The amendments provided that eligible former employees could draw

[1]Michigan Employment Security Act, Act No. 1 of the Public Acts of the Extra Session of 1936, as amended.

[2]Employment Security Amendments of 1970, Public Law 91-373, 91st Congress, H.R. 14705, August 10, 1970.

[3]Michigan Employment Security Act Amendments of 1971, Act 231 of the Public Acts of 1971, House Bill No. 5528, January 3, 1972.

unemployment benefits on the basis of service performed for an institution of higher education after January 1, 1972, and that their respective institutions would be held accountable for these benefits.

With the passage of these amendments, college and university administrators became greatly concerned over the uncertain effects on personnel policies and the financial burden on their institutions coming at a time of spiralling costs and increasing demands on their limited resources. In the ensuing discussions two seemingly divergent views emerged. One stemmed from concern over the costs of this new coverage. Proponents of this view argued that inasmuch as the costs would be directly related to unemployment benefits paid to former employees, controls must be effected through strong, centralized personnel policies and practices and by holding departmental administrators accountable for benefits paid. Proponents of the other view countered that any attempt to control payment of unemployment benefits through strong, centralized personnel practices would interfere with and inhibit their effectiveness as administrators in dealing with staffing needs. They contended also that most unemployment benefits paid would result from factors beyond departmental control and hence, for which they could not be held accountable.

As neither view could be supported from experience, the design and implementation of programs to control factors leading to the payment of unemployment benefits at many Michigan institutions of higher education were predicated upon appeals to department heads for cooperation rather than any sanctioned authority to hold departments accountable for costs incurred as a result of their actions.

Purpose of the Study

The purpose of this study is to investigate the opinions and experience of financial administrators of Michigan institutions of higher education with respect to accountability in the administration of unemployment compensation two years after coverage has been in effect. The underlying thesis of this study is that an effective method can be developed to minimize the incidence and duration of unemployment benefits paid to former employees of Michigan institutions of higher education through an identification of the actions resulting in the payment of benefits and a distribution of costs resulting therefrom to the level of authority at which they were incurred. The general question investigated is: In the opinion of financial administrators, should departmental administrators be held accountable for personnel actions which result in the payment of unemployment benefits? The question is examined in terms of four underlying premises which form the basis of the study. They are:

1. Sound personnel practices can serve to minimize the incidence and duration of unemployment benefits paid to former employees;

2. Financial incentives, either positive or negative, are a requisite part of any model designed to enlist and assure the cooperation of those whose personnel actions may lead to the payment of unemployment benefits;

3. The costs of unemployment compensation are of sufficient concern to financial administrators to justify the development and implementation of an accountability model whereby costs of unemployment compensation may be distributed to the administrative unit or department whose actions resulted in the payment of benefits; and

4. That such an accountability model can be developed with definitive, concise criteria.

In accordance with the foregoing, the study is structured for the collection of data to either support the development of an accountability model, to demonstrate the absence of a need for such, or to support the view that the development of an accountability model is impractical or infeasible.

Need for the Study

With the passage of the 1971 Amendments to the Michigan Employment Security Act, public four-year colleges and universities and private nonprofit institutions of higher education in Michigan became subject to the provisions of the Act as covered employers. None of these institutions had prior experience with an unemployment insurance program nor could they turn to the experience of institutions of higher education in other states for definitive answers to the many questions this coverage raised.[4] What will the costs of this coverage be? Should costs be distributed to departments or absorbed in a central administration budget as a nondistributed cost of operation? In an era in which "accountability" has become a catchword, should the administration of this program be structured to hold departments accountable for specific personnel actions as causes leading to the payment of benefits, i.e., the effects of those causes? These questions in large part have remained unanswered.[5]

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[4]State law coverage varies significantly from one state to another.

[5]The widely heralded revision of College and University Business Administration (Washington, D.C.: American Council on Education, 1968), published under the same title by the National Association of College and University Business Officers, Washington, D.C., 1974, devotes only two paragraphs to this program.

Limitations of the Study

This study is designed to investigate the views of persons knowledgeable about the cost implications of unemployment compensation coverage to Michigan institutions of higher education and to whom responsibility for the financial operation has been entrusted or delegated. As such, the study is limited to an investigation of the experiences and opinions of financial administrators of institutions of higher education.

The study is also limited to the 13 public four-year colleges and the 26 private nonprofit colleges with fall term 1971 enrollments of more than 500 as listed in the 1972-73 Directory of Institutions of Higher Education,[6] published by the Michigan Department of Education, to which the 1971 Amendments to the Michigan Employment Security Act extended compulsory coverage. There are additionally 22 nonpublic colleges listed in the directory whose enrollments ranged from 14 to 468. They are not included in this study as it is considered likely that their experience with unemployment compensation may not be representative of the larger schools whose operations are of far greater magnitude and whose budgetary practices and intricacies are far more complex. Nor are the 29 community and junior colleges operated by political subdivisions and for which coverage was elective under the Act included in this study.[7] Only one of these community colleges elected coverage

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[6]See Appendix A for listing criteria and an identification of the institutions included in the study.

[7]Act No. 104 of the Public Acts of 1974, Senate Bill No. 741, May 16, 1974, extended coverage to these institutions. Coverage, which is not effective until January 1, 1975, is reviewed in Chapter III.

and is subject to the provisions of the Act. Also, the considerations of a community college governing body leading to elective coverage may be such so as to inject a foreign element in a study with others for which coverage is compulsory and lead to a distortion of the findings.

Although a knowledge of the Michigan Employment Security Act as administered through the Michigan Employment Security Commission is essential for the purposes of this study, the study is not concerned with the philosophical or qualitative aspects thereof. While such might well be of interest, criticism of the Act and attempts to change its provisions shall be left to others. The Congress of the United States and the legislature of the State of Michigan have enacted laws to lighten the burden of persons unemployed through no fault of their own through the payment of unemployment compensation. This study is concerned with problems posed by and the implications of those laws and, as such, does not focus on a discussion or consideration as to whether or not those laws per se should be challenged or amended.

Finally, while there is general uniformity in the laws relating to unemployment compensation throughout the 50 states, inasmuch as all conform to certain standards set forth in the Federal Unemployment Tax Act, there are significant differences. For example, the laws of two states provide coverage to students in the employ of an institution of higher education in which they are enrolled and regularly attending classes,[8] whereas the laws of the other 48 states exclude such coverage.

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[8]John F. Adams, Risk Management and Insurance Guidelines for Higher Education (Washington, D.C.: National Association of College and University Business Officers, 1972), p. 113.

Therefore, while the outcomes of this study are expected to have application beyond Michigan, this study is based on Michigan law and inferences to other jurisdictions must be drawn in relation to such similarities or dissimilarities as may exist.

Definitions

Unemployment Compensation, Unemployment Insurance and Unemployment Benefits as used in this study are synonymous. The terms denote payments to eligible individuals formerly in the employ of an institution of higher education during periods in which they are unemployed through no fault of their own.

Institution of Higher Education as defined in Sec. 53(2) of the Michigan Employment Security Act means an educational institution which does all of the following:

a. Admits as regular students only individuals having a certificate of graduation from a high school, or the recognized equivalent of such a certificate.

b. Is legally authorized in this state to provide a program of education beyond high school.

c. Provides an educational program which is acceptable for full credit toward such a degree; provides a program of postgraduate or post-doctoral studies; or provides a program of training to prepare students for gainful employment in a recognized occupation.

d. Is a public or other nonprofit institution.

Administrators is meant to include deans, directors, department chairmen, managers and all persons serving in such or similar capacities regardless of their titles.

Financial Administrator is meant to include the chief business officer or other high-ranking person responsible for the conduct of the business affairs of an institution of higher education and who has had a direct involvement in the formulation of internal practices and procedures with regard to unemployment compensation.

Public Tax-Supported Institutions of Higher Education are those which operate as instrumentalities of the State and whose governing boards derive their authority from Article VIII of the Constitution of the State of Michigan. No distinction is made between the terms tax-supported and tax-assisted.

Private Institutions of Higher Education are those which operate under their charters or articles of incorporation, incorporated under Act 327 of the Public Acts of 1931, as amended,[9] or organized and operating in accordance with Act 142 of the Public Acts of 1964,[10] as amended.

Accountability Model as used in this study is meant to describe a method of cost distribution which is predicated upon the concept that all incurred costs (effects) that result or evolve from an identifiable action (cause) should be borne by the unit responsible for that action as a cost of operation. The justification or rationale upon which this concept derives its legitimacy lies within the broader concept of accountability in education whereby it is requisite to any meaningful attempt to evaluate the outcomes of a program in terms of the financial inputs that all costs attributable to that program be identified. This concept is developed in Chapter III.

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[9] Michigan General Corporation Act.

[10] Pertaining to nonincorporated privately operated nonprofit institutions.

Background of the Problem

The Federal Unemployment Tax Act imposes an excise tax[11] on every employer[12] with respect to having individuals in his employ equal to a percentage of total wages[13] paid by him during the calendar year with respect to employment. The Act also provides, however, that contributions to a State Unemployment Fund, under the unemployment compensation law of a state which is certified by the Secretary of Labor,[14] may be credited against the tax.

Prior to the enactment of the 1970 Amendments to the Federal Unemployment Tax Act,[15] by definition the term "employment" did not include services performed for an institution of higher education in the employ of a state or any political subdivision thereof or by any instrumentality of the state.[16] Similarly excluded from the term employment were services performed in the employ of an institution of higher education operated by certain religious, charitable, educational or other organizations described in Section 501(c)(3) of the Internal

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[11] Internal Revenue Code, 26 U.S.C., Sec. 3301 (1970).

[12] Ibid., as defined in Sec. 3306(a).

[13] Ibid., as defined in Sec. 3306(b).

[14] Ibid., Sec. 3304.

[15] Public Law 91-373, op. cit.

[16] Ibid., Sec. 3306(c)(7).

Revenue Code of 1954[17] and exempt from income tax under Section 501(a) thereof.[18]

The passage of the 1970 Amendments to the Federal Unemployment Tax Act excepted from the exclusions to the term employment services specifically performed for institutions of higher education in the employ of a state or any instrumentality of a state[19] as well as those performed in the employ of those religious, charitable, educational or other organizations.[20] This, in effect, made coverage under the unemployment insurance program mandatory for all public and private institutions of higher education with the exception of those operated by a political subdivision of a state.[21] This meant that as a condition of certification, essential so that covered employers in any given state would continue to receive tax credit under the Federal program for their contributions to their state's program, that the state extend coverage to employees of institutions of higher education on the same basis as for other covered employees. Without exception, the legislatures of each of the 50 states responded by enactment of amendments

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[17] Section 501(c) lists the organizations exempted from taxation under Section 501(a). Subsection (3) includes corporations organized and operated exclusively for educational purposes.

[18] _Ibid._, Sec. 3306(c)(8).

[19] _Ibid._, Sec. 3309(a)(1)(E).

[20] _Ibid._, Sec. 3309(a)(1)(A).

[21] The Michigan Employment Security Act, Section 25(2)(a) provides that "a political subdivision may elect by ordinance or resolution to cover either or both of the following for at least 2 full calendar years: (a) All services performed for it in employment in all of its hospitals and institutions of higher education as defined in Section 53; . . . ." Effective Janaury 1, 1975, community colleges will be subject to compulsory coverage. (See note 6.)

placing their state's program in accord with the provisions of the Federal Act effective January 1, 1972.

In Michigan, the unemployment compensation program is administered by the Michigan Employment Security Commission. The Commission maintains a rating account for each covered employer to which contributions are credited and to which disbursements in the form of benefits paid to unemployed individuals on the basis of past employment with that employer are charged. On the basis thereof, a contribution rate for each employer is determined after an initial period of three years in which the rate is predetermined by law, and applied to covered wages paid by him with respect to employment.[22] Amounts paid to the Commission on the basis thereof are credited to the employer's rating account maintained by the Michigan Employment Security Commission and to which expenditures in the form of benefits are likewise charged. A state institution of higher education or a political subdivision which elects to be subject to the Act, however, is required to pay into the fund in lieu of contributions an amount equivalent to the amount of benefits paid and charged to its account.[23] Thus, as a reimbursable employer, a state institution of higher education is held responsible by the Commission for the repayment of every dollar in unemployment compensation benefits paid and chargeable to it. This provision may not operate to the advantage of a state institution of higher education depending, of course, on a number of factors both within and beyond its control.

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[22]Michigan Employment Security Act, op. cit., Section 19.

[23]Ibid., Sec. 13(g)(1).

Private nonprofit institutions of higher education are contributing employers.[24] Such an institution may, however, elect to become a reimbursing employer for a period of not less than two years in lieu of contributions for the unemployment compensation fund.[25] Two or more private nonprofit institutions may also file a joint application with the Commission for the establishment of a group account.[26] In all other aspects, private and public institutions are accorded the same treatment under the Act. As contribution rates are based on experience, administrators of institutions which are contributing employers are, in this sense, held accountable for their personnel actions which result in the payment of benefits as are those of reimbursing employers. Within the accountability context of this study, therefore, the distinction between contributing and reimbursing employers is not one of significant import to warrant separate treatment.

Significance

Unemployment compensation may or may not be a fringe benefit, depending on one's point of view. It is, nevertheless, unique among the usual fringe benefits or distinct from them in that benefits are available only to former employees during periods in which they are unemployed. By definition, then, persons drawing benefits are no longer employees and owe no allegiance to the former employer against whose account the payments are charged. Conversely, the welfare of an

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[24] Ibid., Sec. 13(a)(1).

[25] Ibid., Sec. 13(a)(2).

[26] Ibid., Sec. 13(c).

employee is not under consideration by an employer once a claim for benefits is filed. It is an employer's right to contest the payment of benefits for which he believes a former employee may not be entitled. Should such action be taken, the relationship between the two parties becomes that of adversaries. Thus, were there no terminations or lay-offs, no benefits would be paid, a condition which would be reflected in the employer's rating account or, even more directly, in the amount paid to the Commission by a reimbursing employer. Furthermore, the employer who successfully contests a claim for benefits, resulting in a ruling of ineligibility or a disqualification, stands also to gain. To a large degree, then, the costs of unemployment benefits are a reflection of personnel practices and policies and can be controlled as can no (other) fringe benefit. As such, the administration of unemployment compensation within institutions of higher education lends itself to an accountability model.

Unemployment compensation costs also may or may not presently be a significant concern to financial administrators of institutions of higher education in Michigan. It is the intent of this study to make clear what they now believe in light of their experience during the first two years of coverage. Their views may suggest problems not previously known or evidence concern about the future under this program. Some examples which may give rise to the latter are: (1) Employees generally did not have sufficient credit weeks in covered employment with institutions of higher education to quality for unemployment benefits until the second week of April, 1972, and were not eligible for the maximum number of weeks of benefits until July of the same year.

The first year's experience, therefore, may be deceptive as a projection of benefits to be paid in succeeding years. (2) Reassignment of employees, particularly in seasonal operations, to other areas and with other duties is a common practice of institutions of higher education to stabilize the work force and provide year-round employment for those employees desirous of such. Should the Commission find that work to which an employee is so reassigned is "unsuitable," the employee need not accept the reassignment and would be eligible to file for unemployment benefits. Additionally, union agreements may preclude such reassignments with the same effect. (3) Reduced Federal funding and private support for institutional research programs may force layoffs and terminations resulting in the payment of benefits. (4) Adverse economic conditions may have the same effect.[27] (5) Interpretations of the Act may extend eligibility for benefits to persons and situations not now covered. (6) Changes in the law might also extend coverage and/or increase benefit payments significantly.[28]

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[27]Michigan has been affected by the "energy crisis" to a far greater degree than most other states. During the first four months of 1974, statewide unemployment as reported by the Michigan Employment Security Commission was consistently close to 10 percent of the labor force. Institutions of higher education in Michigan are by no means immune from the effects of this phenomenon as employees discharged, laid off or who otherwise terminate without leaving the labor force may have difficulty securing other employment and thus draw benefits chargeable to the institution at which they were employed. Additionally, reduced state funding and/or philanthropic giving and reduced enrollments may place financial constraints on institutional programs with a concomitant reduction in the institution's work force. Additional discussion on this topic is included in Chapter III.

[28]Act No. 104 of the Public Acts of 1974, op. cit., brought about a significant increase in the maximum benefits payable to eligible claimants. Act No. 11 of the Public Acts of 1974, House Bill 4143, February 15, 1974, eliminated the waiting period of one week before a claimant could draw benefits.

From this study, then, some statements about the experience of financial administrators with regard to unemployment compensation and whether or not it is of sufficient concern to warrant further research should be possible. Later researchers will have a starting point. At present, there are no general studies of this nature.

Overview

In Chapter II a historical review of the legislation relating to unemployment compensation coverage as it applies to institutions of higher education will be presented. Additionally, the benefit payment structure of the Michigan Employment Security Act will be reviewed. Chapter III will be devoted to the development of the concept of accountability as it relates to this study. Then, in Chapter IV the design of the study will become explicit. In Chapter V, the results of the survey instrument and interviews will be presented and analyzed. The conclusions and recommendations will be presented in the final chapter, Chapter VI.

CHAPTER II

A REVIEW OF THE LEGISLATION

Introduction

There is no definitive work addressed solely or in substantial part to unemployment compensation coverage or its implications for institutions of higher education in the United States or specifically in Michigan. Several articles, however, have appeared in newsletters, journals and bulletins addressed to administrators of institutions of higher education. As these institutions were not generally subject to coverage prior to January 1, 1972, the articles contain little empirical data or references to actual experience. Their content is explanatory and structured to provide an overview of the new coverage and guidelines upon which actions could be taken. The more substantive articles will be reviewed in this chapter and the chapter which follows. Together, these two chapters will comprise a review of the literature, a review of the applicable legislation and a more in-depth development of the problem that was outlined in the previous chapter.

The Federal Unemployment Tax Act

A thorough understanding of the Federal Unemployment Tax Act is not essential to an understanding of this study. As noted previously, institutions of higher education operated as nonprofit organizations, instrumentalities of the state or political subdivisions thereof are not subject to the provisions of this Act. The Federal Employment

Security Amendments of 1970,[1] however, provided that the states must extend unemployment compensation protection to employees who perform services for institutions of higher education or risk noncertification of their provisions.[2] Accordingly, Michigan, as did all 50 states, amended its Employment Security Act to provide this coverage. It seems appropriate, therefore, to include an overview of the Federal Act, including a brief historical review with particular focus on developments that led to coverage of institutions of higher education.

Historical Review

The Federal Unemployment Tax Act is a part of the Social Security Act, passed by Congress and signed by President Roosevelt on August 14, 1935. A major work by William Haber and Merrill G. Murray entitled Unemployment Insurance in the American Economy, published

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[1]Public Law 91-373, 91st Congress, H.R. 14705, August 10, 1970.

[2]The Federal Unemployment Tax Act is patterned after the Federal Estate Tax Act of 1928. This Act imposed a Federal inheritance tax with a provision that 80 percent credit would be given for taxes paid under a state inheritance tax law meeting Federal guidelines. It was passed to induce Florida to pass a similar law, thus removing the competitive advantage it had gained over other states by repeal of its inheritance tax law in an attempt to lure wealthy persons to move to Florida. As the Roosevelt Administration perceived the strongest obstacle to state action on unemployment legislation to be the fear that such legislation would place industry in such states at a competitive disadvantage with industry in states without similar legislation, it adopted the Federal Estate Tax Act scheme. For a more detailed history, see William Haber and Merrill G. Murray, Unemployment Insurance in the American Economy (Homewood, Illinois: Richard D. Irwin, Inc., 1966), pp. 72-73.

in 1966, provides insight into the developments which led to its passage.[3]

Although there had been sporadic activity at the Federal level since 1916,[4] the Federal government gave very little serious attention to unemployment insurance before the economic holocaust of 1929. Nearly 30 years elapsed from its first mention in Congress to passage. Whereas in 1935 unemployment insurance met with only token opposition,[5] opponents had previously been drawn from many diverse quarters.

Samuel Gompers, President of the American Federation of Labor, for example, had taken a strong stand against such legislation. At hearings conducted in 1916 in response to a resolution for the "appointment of a national insurance commission and for the mitigation of the evil of unemployment," Gompers went on record as against the proposed Commission. If established, he stated,

> I would have them investigate the subject of social insurance of a voluntary character and how far it can be established in the United States with such aid as the government can give. I am more concerned . . . with the fundamental principles of human liberty and refusal to surrender rights to government agencies than I am with social insurance."[6]

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[3]Haber and Murray, <u>op. cit</u>. Dr. Murray served as associate director of the unemployment compensation staff for the Committee on Economic Security, which drafted the legislation. He is, therefore, in a somewhat unique position to chronicle the events leading to its passage.

[4]<u>Ibid</u>., p. 70. According to the authors, the earliest known official recommendation was that of the United States Commission on Industrial Relations. In its final report in 1916, the Commission recommended the investigation and preparation of plans for insurance against unemployment "in such trades and industries as may seem desirable."

[5]The House of Representatives passed the Social Security Act by a vote of 371 to 33; the Senate by a vote of 77 to 6.

[6]Haber and Murray, <u>op. cit</u>., p. 70.

He maintained this position, one which was also the official position of the American Federation of Labor, until 1932.

Nor did Secretary of Commerce Herbert Hoover seem favorable to unemployment insurance legislation in his opening remarks to a national conference on unemployment, called by President Warren Harding in 1921. Hoover spoke of "direct doles" to individuals as "the most vicious of solutions."[7] He added that he hoped the conference would find solutions that do not "come within the range of charity." In seeming response, the Economic Advisory Committee on Unemployment and Depression Insurance, appointed at the conference, recommended that reserve funds be created and used in depressions, not to pay part-wages to workers in idleness but to keep them employed on making repairs, producing to stock, etc.

The first Federal unemployment insurance bill was not introduced in Congress until 1928.[8] While no action was taken on the bill, later that same year the Senate adopted a resolution introduced by Senator James Couzens of Michigan to provide for "an analysis and appraisal of reports on unemployment and systems for prevention and relief thereof."[9] Hearings were held by the Committee on Education and Labor which recommended that: (1) The government should encourage private industry in its responsibility to stabilize employment; and (2) that if any public insurance scheme is considered, it should be left to the state legislatures to study the problem.

Spurred on by the depression, interest in an unemployment insurance program gained support. In 1931 Senator Robert F. Wagner

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[7]*Ibid.*, p. 70. [8]*Ibid.*, p. 71. [9]*Ibid.*

of New York secured adoption of a resolution providing for the appointment of a Select Committee on Unemployment Insurance.[10] Again, upon the completion of its hearings, the Committee concluded that a Federal system of unemployment insurance would be unconstitutional and undesirable. Accordingly, it favored voluntary plans.

Issuing a minority report, Senator Wagner stated that "unemployment insurance or wage reserves, to be successful, should be inaugurated under compulsory State legislation and be supervised by State Authority"; that "each system should be organized to provide incentives to the stabilization of employment"; and that the Federal government should allow employers to deduct from income tax their payments into unemployment reserves or insurance plans.[11] Senator Wagner thereupon introduced legislation to this effect in 1931 and again in 1933.

Feeling apparently was still strong that such legislation should be enacted at the state level. The failure of any state to do so in 1933, however, pointed to the necessity of Federal action. To allay the fear of unconstitutionality, Wagner's bill was modified to incorporate a Federal-state tax credit program patterned after the Federal Estate Tax[12] which had been held constitutional by the conservative Supreme Court.[13]

The Wagner-Lewis bill,[14] which is significant in that it had a pronounced influence on the provisions included in the Social Security

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[10] Ibid. [11] Ibid., pp. 71-72. [12] See note 2.

[13] Florida v. Mellon, 273 U.S. 12.

[14] Representative David J. Lewis of Maryland introduced in the House of Representatives a bill identical to the Wagner bill. Hence, the bill came to be called the Wagner-Lewis bill.

Act, imposed a 5 percent excise tax on employer payrolls with the proviso that if a state law met prescribed conditions, a covered employer could receive 100 percent credit against the tax. The prescribed conditions included minimum benefits to unemployed workers and stipulated conditions which could not be used to support a denial of benefits.[15]

This time opposition came mainly from employer organizations. Although the bill had the endorsement of President Roosevelt, the opposition succeeded in convincing him that further study was warranted. As the President was also not satisfied with a bill providing for the subsidy of state old age pensions, he proposed that the best course would be to delay action on both bills and formulated plans for a comprehensive study of social insurance for presentation at the first session of the next Congress.[16]

In a message to Congress, delivered June 8, 1934, the President stated:

> I believe there should be a maximum of cooperation between States and the Federal Government. I believe that the funds necessary to provide this insurance should be raised by contribution rather than by an increase in general taxation. Above all, I am convinced that social insurance should be national in scope, although the several States should meet at least a large portion of the cost of management, leaving to the Federal Government the responsibility of investing, maintaining and safeguarding the funds constituting the necessary insurance reserves.[17]

Thereupon, later that same month, the President appointed the Committee on Economic Security to study problems relating to the economic security of individuals.

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[15]Haber and Murray, op. cit., p. 73.

[16]Ibid., p. 74. [17]Ibid., p. 77.

Haber and Murray note that the Committee on Economic Security did not deliver its report to the President until January 15, 1935. Considering the many divergent views and problem areas to be resolved, a lapse of less than six months does not seem excessive. In its report, the Committee recommended:

1. Federal legislation on unemployment insurance to include a uniform Federal excise tax on employment with a tax credit to employers for their contributions under a compulsory state unemployment insurance law; and

2. That the Federal Government grant the states sufficient funds for proper administration of their unemployment insurance laws.[18]

Specifically, within these two major recommendations, the Committee advocated:

1. That the tax be imposed on <u>all employers</u> (emphasis added) who employ four or more workers for 13 or more weeks in a year;

2. That the tax be equal to 1 percent of total payrolls in 1936 and 3 percent by 1938;

3. That a credit up to 90 percent of the Federal tax be allowed employers for contributions under a state unemployment compensation law which meets certain prescribed conditions;

4. That if a state allowed lower contribution rates to employers with stable employment, additional credit toward the Federal tax be allowed for taxes that otherwise would be paid under the state law;

5. That all money collected by the states be deposited with the Federal Treasury and placed in a trust fund with an account to the credit of each state; and

6. That the Federal Government grant the states money for administration of their laws.[19]

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[18] *Ibid.*, pp. 82-83. [19] *Ibid.*, pp. 83-84.

The unemployment insurance provisions included in the Social Security Act as passed by the Congress were not basically different from the recommendations of the Committee. The recommendation that employers who employ 4 or more workers for 13 or more weeks in a year was changed to include only those who employ 8 or more workers in 20 weeks a year and the requirements for experience rating were modified.

For the purposes of this study, the changes made in the requirements for experience rating (see item number 4 of the Committee's recommendation above) are of little import. Of significance is that the concept of experience rating itself, whereby employers with favorable experience may pay a lesser state tax and still be afforded the full allowable credit against their Federal tax, was adopted. Nor for the purpose of this study is the change in the number of employees employed during a specified number of weeks of import.[20] Of significance is that while the Committee recommended that no industries be exempted (see item number 1 of the Committee's recommendation above), the Congress specifically excluded service for state and local governments and instrumentalities, and service for nonprofit organizations

[20]The 1970 Amendments to the Federal Unemployment Tax Act extended coverage to any employer who (1) during any calendar quarter in the calendar year or in the preceding calendar year paid wages of $1,500 or more, or (2) on each of some 20 days during the calendar year or during the preceding calendar year, each day being in a different calendar week, employed at least one individual in employment for some portion of the day.--Section 3306(a). Interestingly enough, nonprofit organizations were specifically excluded from coverage unless they employ four or more persons on each of some 20 days, each day being in a different calendar week.--Section 3309(c). Obviously, to an institution of higher education, this distinction is moot.

of an educational nature.[21] Thus, institutions of higher education, whether operated publicly by the state, a local government or as an instrumentality thereof; or privately as or by a nonprofit organization, were exempted from coverage.

According to Haber and Murray, the exemption of nonprofit organizations was added to the bill by the House Committee on Ways and Means without any explanation in the report.[22] They point out further that the president of the American Hospital Association was the only witness in the Committee's hearing asking for exemption, adding that evidently his request prevailed. It is probable, however, that nonprofit organizations were originally exempted on the basis of their traditional freedom from taxation, and because of the financial difficulties they would experience in paying the required taxes.[23]

Diedrich K. Willers, Personnel Director of Cornell University, comments that:

> It is not surprising to realize that nonprofit organizations were exempted from payment of unemployment benefits in 1935, when the Federal Unemployment Tax Act was passed by the Congress. The framers of unemployment insurance chose to finance the program on a "spreading the risk" approach, rather than a self insurance plan. Since nonprofit organizations have no way of passing the cost of unemployment on to customers, a disproportionate burden would have fallen upon their operating funds.

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[21]Also excluded were agricultural labor; domestic service in a private home; service by the crews of vessels on navigable waters of the United States; service by specified immediate members of the family of the employer; service for the Federal government or Federal instrumentalities; and service for nonprofit organizations of a religious, charitable, scientific, literary nature or for the prevention of cruelty to children or animals. The exclusions which are still in effect today pose some interesting inconsistencies for institutions of higher education. For example, agricultural labor in the employ of an institution of higher education is not covered by the Act.

[22]Haber and Murray, op. cit., p. 152. [23]Ibid., p. 153.

> Ultimately, private donors, students paying tuition and other benefactors would be footing the bill of those private profit-making enterprises with a high risk of unemployment. Since the adventure in protective social insurance was new, the framers were unwilling to bastardize their insurance approach by permitting self insurance funding of unemployment benefits for a non-profit organization.[24]

State and local governments and their instrumentalities were not covered in recognition of the constitutional proscription against taxing states and their subdivisions.[25] While no direct reference to the exclusion of public institutions of higher education was included in the original Act, they were nevertheless excluded.

Between passage of the Social Security Act in 1935 and the Employment Security Amendments of 1970, considerable Federal legislation with regard to unemployment insurance was enacted. Other than the 1939 amendments which changed the unemployment tax base from total payrolls to the first $3,000 earned by each individual during a calendar year[26] and the exclusion of service performed by a student who is enrolled and regularly attending classes at such school, college or university,[27] little ultimately came to affect institutions of higher education.

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[24]Diedrich K. Willers, "Impact of Extension of Unemployment Compensation Coverage to Colleges and Universities," The Journal of the College and University Personnel Association, December, 1970, pp. 6-7. It is interesting to note that the 1970 Amendments to the Federal Unemployment Tax Act, which extend coverage to nonprofit organizations, requires that such organizations be given the option to self insure.

[25]Haber and Murray, *op. cit.*, p. 165.

[26]*Ibid.*, p. 101. [27]*Ibid.*, p. 93.

The Employment Security Amendments of 1970

The executive branch of the Federal government urged coverage of nonprofit organizations and sponsored bills to that end since 1958.[28] Coverage for employees of state and local government, the largest group not protected by unemployment insurance, has been a continuing concern of advocates of unemployment insurance.[29] It is not surprising, therefore, that the former and a significant portion of the latter came under the scrutiny of Congress and were included in the Employment Security Amendments of 1970. Together, coverage was extended to an estimated 3,061,000 employees in these two categories.[30]

The 1970 Amendments brought about the most sweeping changes in the unemployment program since its inception in 1935. Changes were made in three major categories: coverage, benefit extension and financing, all of which affect institutions of higher education.

Most significant, of course, is that the Amendments singled out coverage for institutions of higher education. To both public and private institutions, this was effected by a circuitous route. As has been noted, these institutions were not brought under the Act directly but rather coverage was made a condition of certification of state laws.[31]

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[28] Ibid., pp. 152-153. [29] Ibid., p. 165. [30] Willers, op. cit., p. 5.

[31] Section 3309(a)(A) recinded the exclusion for nonprofit educational organizations and Section 3309(a)(1)(B) specifically recinded the exclusion of "service" performed in the employ of the State, or any instrumentality of the State . . . for a hospital or institution of higher education located in the State. . ." and made these coverages mandatory as a condition of certification of state laws. Without certification, no employer in the state may credit payment made to a state unemployment compensation fund against his Federal unemployment tax.

While one may look askance at this approach, to those private institutions for whom it mandated coverage, it is not without merit. The Federal unemployment tax rate is presently 3.2 percent,[32] against which an employer may take a credit of 2.7 percent for payments to a state unemployment fund. The continued exclusion of these institutions under the Federal Act, therefore, results in a "saving" of .5 percent, i.e., the Federal component of the tax.[33]

Secondly, the Federal-State Extended Unemployment Compensation Act, incorporated into the Employment Security Amendments, provides for the payment of additional benefits to workers who have exhausted their regular benefit entitlement. Although the Act allows some variation in state law, the additional benefits are generally one-half those the worker received as regular benefits. The Federal and state governments share equally in the cost of this program and the rating account of contributing employers is not charged with these costs. State and private institutions which have elected to be taxed as reimbursing employers, however, are charged for the state's share.[34]

Finally, the Amendments provide that a nonprofit organization to which coverage is therein extended, must be given the option to

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[32]Section 3301 of the 1970 Amendments increased the rate from 3.1 percent.

[33]The Amendments also mandated that the first $4,200 of remuneration paid by an employer to an employee in a calendar year be subject to the state tax, an increase from $3,000. This meant that for each employee with earnings of at least $4,200, the state tax on the employer would be $113.40, up from $81.00. If coverage was provided under the Federal Act, the additional .5 percent tax would amount to $21.00.

[34]In weighing the factors toward a decision as to whether or not to elect the reimbursement method of financing, a private nonprofit institution must give added consideration to this provision.

reimburse the State Unemployment Fund for benefits paid on its behalf in lieu of contributions, i.e., taxes.[35]

Additionally, a number of provisions in the Amendments, some mandatory and some permissive, apply specifically to institutions of higher education. Of particular note is the mandatory provision that states, with regard to state law coverage of certain employees of nonprofit organizations and of state institutions of higher education, that:

> Compensation is payable on the basis of service . . . in the same amount, on the same terms, and subject to, the same conditions as compensation payable on the basis of other service subject to such law; except that with respect to service in an instructional, research or principal administrative capacity for an institution of higher education . . . compensation shall not be payable based on such service for any week commencing during the period between two successive academic years (or when the contract provides for a similar period between two regular but not successive terms, during such period) to any individual who has a contract to perform services in any such capacity for any institution or institutions of higher education for both of such academic years or both of such terms. . . .[36]

This means that, except as otherwise allowed, all employees of institutions of higher education must be covered under the state act without distinction other than the limitation on the right to benefits placed on those serving in instructional, research or principal administrative capacities.

With reference to this provision, the Joint Committee of the Pennsylvania State-Related Institution of Higher Education observed that:

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[35]Sec. 3309 (a)(2). The significance of this option is of such import that it is discussed extensively in the next chapter.

[36]Sec. 3304 (a)(6)(A).

> The requirement has significant implications for educational institutions many of whose employees are performing services which are strongly affected by the seasonal character of the institution's operations. . . . The seasonal nature of much of the institution's operations makes it particularly vulnerable to charges for benefits. . . . This vulnerability suggests the urgent need for institutions of higher learning to reexamine their hiring, employment, wage and layoff practices in order to so schedule or allocate work assignments and employees so as to minimize the need for layoffs and/or to limit by contract provisions the availability of such employees to work elsewhere during slack periods of work for the institution. Obviously, this will present a major challenge to any educational institution requiring as it does the achievement of stability of employment where for so long instability has been accepted as an inherent characteristic.[37]

In the realm of permissive legislation, the 1970 Amendments retained the provision whereby a state act could exclude from coverage service performed in the employ of a school, college or university if such service is performed by a student who is enrolled and regularly attending classes at such school, college or university.[38] While heretofore this provision had applicability to an extremely limited few schools, colleges or universities, it now took on added significance as virtually all such institutions came under the Act.[39] As the Joint Committee of Pennsylvania State-Related Institutions of higher education noted, however, the imprecise wording "enrolled and regularly attending classes" left open to interpretation a significant

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[37]The Joint Committee of the Pennsylvania State-Related Institutions of Higher Education, "Unemployment Insurance: 1971 Is the Year for Planning," College and University Business Officer, February, 1971, pp. 6-7.

[38]Sec. 3306(c)(10)(B)(i).

[39]This provision previously had applicability to nonreligious institutions of higher education in the District of Columbia, schools, colleges or universities operated for profit, and such others as may have been covered by state laws, a very small minority on which few data are available.

feature of the Amendments.[40] Does it include graduate assistants or graduate students engaged in research who may not be regularly attending classes? Does it include the individual who is employed full time, or substantially full time, by the institution but, as an incident to that employment, is permitted by take a course, perhaps at night school?[41] The Pennsylvania Committee recommended that state law be more definitive. In the absence of such, the final interpretation would be left to the courts. In the interim, individual interpretation by such "students," institutions, and state employment security offices may leave much to be desired.

The 1970 Amendments also permit the states to exclude the service performed in the employ of a school, college or university by the spouse of such a student, if the spouse is advised at the commencement of employment that the service is provided under a program to provide financial assistance to the student and that the employment will not be covered by any program of unemployment insurance.[42] Once again, the applicability of this provision is contingent upon a definition of what constitutes "enrolled and regularly attending classes."

Irrespective, this provision has been a controversial one. The Pennsylvania Committee allowed that there are reasons why such service should be covered. "It must be presumed that the spouse is rendering services of value commensurate with the remuneration paid and that the same criteria of satisfactory performance are applied to such

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[40]The Joint Committee of Pennsylvania State-Related Institutions of Higher Education, op. cit., p. 5.

[41]Ibid., p. 6. [42]Sec. 3306(c)(10)(B)(ii).

services as to services rendered by any other employee."[43] They acknowledged, however, that other institutions

> . . . may feel that employment of a spouse is very intimately bound to financial assistance to the student through the conditions of hiring, duration of employment, and conditions of separation, and that the employment of a spouse under these conditions imposes exceptional costs resulting from additional training expenses and turnover.[44]

Their recommendation was that state law provide for the exclusion leaving the decision as to whether or not to use it to each individual institution.

Finally, as a permissive exclusion, state law coverage could exclude the services of individuals under age 22 engaged in a combined academic and work experience program.[45]

With the passage of the Federal Amendments, each state had to amend its program to comply with the mandatory provisions. Additionally, it became incumbent upon each state legislature to consider the permissive exclusions. Institutions were advised to work with their legislators to obtain the best possible legislation. Toward this

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[43]The Joint Committee of Pennsylvania State-Related Institutions of Higher Education, op. cit., p. 5.

[44]Ibid., p. 6.

[45]Sec. 3306(c)(10)(c). With the 1974 Amendments to the Michigan Employment Security Act which extends coverage, among others, to school districts, this provision may take on added significance with regard to various cooperative programs between the teacher training institutions and local school districts. Michigan State University, for example, has raised the question as to whether or not this exclusion, incorporated into the Michigan Act, will be construed to exclude students in its Elementary Intern Program. In their final year of study, these students, while still enrolled for credit at Michigan State University, are employed by participating school districts. In the event this program is held to be outside this exclusion, local school districts may be reluctant to continue their participation in the program.

end, in Michigan, the Association of Independent Colleges and Universities of Michigan and the Michigan Council of State College Presidents maintained a close liaison with the Michigan Legislature.

The Michigan Employment Security Act

Throughout 1970 and 1971, the public and private colleges in Michigan, working largely through their Associations, sought first to influence the Federal legislation and later the enabling legislation under consideration by the State.[46]

In the early months of 1970, H.B. 14705, then entitled the Employment Security Amendments of 1969, provided a wide degree of latitude to the states in terms of the extent to which benefits would be payable to seasonal employees. Therefore, while there were concerns over the effects of the pending Federal legislation, they were allayed by the Director of the Michigan Employment Security Commission, who assured that the State would make the final determination.

Of particular concern was the staff employed in auxiliary enterprises, such as residence halls and student dining rooms. It was pointed out that in practically all cases, these employees are hired for a period that covers only the academic year. It was argued, accordingly, that to not exclude them from benefits during normal recess periods would result in increased costs which must be passed on to the students they serve.

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[46]The observations in reference to these efforts are largely made from personal involvement and correspondence in the writer's possession.

H.R. 14705 as it finally passed in Congress, however, provided no such latitude. As has been noted, the only exception provided in the 1970 Amendments applied to those in instructional, research and principal administrative capacities. As such, the attention of the Michigan institutions turned to the permissive exclusions contained in the Federal Amendments.

Of particular concern, as had been expressed by the Pennsylvania Committee, was the vague reference to the exclusion from coverage of a student who is "enrolled and regularly attending classes."[47] In a meeting between representatives of the Michigan Council of State College Presidents and the Michigan Employment Security Commission staff on November 27, 1970, problem areas identified were:

1. There are many full-time employees who are enrolled in coursework. There are many full-time students who are employed by the institution. Who is a student and who is an employee for purposes of unemployment insurance coverage?

2. The traditional concept of classroom attendance is inadequate for identifying those who are "regularly attending classes" as stated in the legislation. The example of the resident intern who is continuously involved in a "learning" situation was offered.

3. Many full-time students do not enroll for coursework during the summer but are employed full time by the University for summer only.

At the conclusion of the meeting there was tentative agreement that the wording should be altered to exclude service performed:

a. By a student enrolled within the normal academic year who is employed by the institution and who normally works less than 30 hours per week, or;

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[47]The exclusion itself was not so much in question as was the wording.

b. By a student in any educational program for which services related to that educational program are rendered.

In March of 1971, in response to questions which had been raised at a workshop held at Michigan State University on unemployment compensation as it affects Michigan colleges and universities, the MESC staff, troubled now with the term "normal academic year," suggested that the language by changed to:

a. By a student enrolled within a term, semester or year and while thus enrolled is employed by the institution and normally works less than 30 hours per week.

The revision, which was intended to make clear that services performed between terms by students would be in covered employment, drew vociferous protests by the Michigan institutions. The MESC, however, maintained its position and in its final recommendation submitted to the legislature in June, 1971, included, as excluded from coverage, service performed, in the employ of a school, college or university, if such service is performed:

a. By a student who is enrolled and is regularly attending classes within a normal academic term, semester or year, and while thus enrolled is employed by the institution and normally works less than 30 hours per week, or
b. By a student in any educational program for which services related to that program are rendered.

Thus, efforts by the Michigan institutions of higher education to obtain language in the legislation they considered favorable went to the Michigan Legislature.

The Senate Labor Committee reported out Senate Bill 833 with the MESC-recommended language. It, however, among 74 amendments proposed, included the Council-supported language, which had again been modified, to wit:

> By a student admitted or enrolled in an institution and who normally works less than 30 hours per week for an institution, however, employment will not be covered between consecutive terms, semesters or quarters, or during any single term, semester or quarter when not enrolled regardless of the number of hours normally worked, when the period is followed by enrollment in any such institution.[48]

In September, 1971, however, the Federal Manpower Administration, which is charged with approval of state unemployment compensation laws, indicated to the Michigan Employment Security Commission its opposition to the proposed amendment. They recommended that the Michigan legislation parallel more closely the comparable Federal Unemployment Tax Act exclusion.

At the same time, concern developed within the institutions that any reference to the number of hours a student may normally work and still be subject to the exclusion would be difficult to administer. Accordingly, the Michigan institutions, in a complete reversal to their earlier opposition to the Federal language, endorsed its use in the Michigan Employment Security Act Amendments of 1971.

As the Federal language seemingly now had the support of all concerned, it was incorporated into H.B. 5528, which was passed by the Michigan Legislature. The text of this, and the other permissive exclusions which thus became incorporated into the Michigan Employment Security Act, is as follows:

> Sec. 43. Except as otherwise provided . . . the term "employment" shall not include:
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> (1) Service performed in the employ of a school, college or university, if the service is performed:

[48] *Journal of the Senate*, August 13, 1971, pp. 1583, 1586.

(i) By a student who is enrolled and regularly attending classes at such school, college or university.
(ii) By a spouse of such a student, if given written notice at the start of such service that the employment is under a program to provide financial assistance to such student, and that such employment will not be covered by any program of unemployment compensation.

. . . .

(m) Service performed by an individual under the age of 22, who is enrolled at a nonprofit or public educational institution . . . as a student in a full-time program taken for credit at the institution, which combines academic instruction with work experience, if the service is an integral part of the program, and the institution has so certified to the employer.

In accordance with the mandatory provisions of the Federal Employment Security Amendments of 1970, the Michigan Employment Security Act was also amended. With this action, Michigan institutions of higher education on January 1, 1972, became subject as covered employers to all other provisions of the Act. Their employees at the same time, except as specifically excluded, became entitled to the full measure of benefits accorded to employees of any other covered employer.

1974 Amendments

During 1974, the Michigan Legislature twice amended the Michigan Employment Security Act. In February, presumably in response to the growing concern over the large numbers unemployed in Michigan, the Legislature passed a bill to remove the "waiting week" requirement.[49] This means that unemployed persons who meet the eligibility requirements can receive benefits commencing with the first week of their unemployment, whereas previously a one week delay had been imposed. Although it is difficult to assess the effect of this action, it adds

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[49] Act No. 11 of the Public Acts of 1974, H.B. 4143, February 15, 1974.

one extra week of benefit payments to those who do not exhaust their benefit rights during a period of unemployment. To nonprofit institutions of higher education paying contributions, therefore, it adds to the cost of coverage through additional charges to their rating accounts. Nonprofit institutions which have elected to reimburse the Commission and state institutions which must reimburse the Commission for all benefits chargeable to them are affected even more directly.

Of greater significance to institutions of higher education in Michigan, in May the Legislature again amended the Act, this time with far more sweeping provisions.[50] The Amendments were addressed to three principal aspects of the Act, two with regard to benefits and one with regard to coverage. Benefits were changed both in terms of the maximum allowable amounts and the formula used to determine the number of dependents upon which a claimant's benefits are based.

Whereas the maximum benefit rates had ranged from $56.00 to $92.00 per week, based upon average weekly wages and family class, they now range from $67.00 to $106.00.[51] And whereas the rates were based on a confusing formula which drew a distinction between dependents who are children and dependents who are not children, this

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[50]Act No. 104 of the Public Acts of 1974, Senate Bill 741, May 16, 1974.

[51]This Amendment significantly increases the cost to institutions of higher education. Previously, a claimant with no dependents, on the basis of average weekly earnings of $100.01 or more, could receive a maximum benefit of $56.00. The effect of this change is to allow such a claimant, whose average weekly wage is more than $100.00, to receive a benefit of 55 percent of his average weekly wage up to $67.00. The same adjustment was made "across the board" for each dependency class, allowing a claimant with four or more dependents and an average weekly wage of $190.92 or more to draw the maximum weekly benefit of $106.00.

distinction was eliminated.[52] Again, it is difficult to assess the effects of these changes other than to note that they will result in higher costs to employers, including institutions of higher education.

Most significant to institutions of higher education is that the Amendments extended coverage to community colleges, previously exempted from compulsory coverage, and to school districts.[53] Whereas the benefit provisions of the Amendments were given immediate effect, this extension of coverage will not take effect until January 1, 1975.[54] Community colleges and school districts were brought under the Act on the same basis as other employers within the State with several notable exceptions.

First, the Amendments provide that a community college or school district which is or becomes subject to the Act after December 31, 1974, shall make reimbursement payments in lieu of contributions as a reimbursing employer for not less than two calendar years beginning January 1, 1975, unless it elects to pay contributions as a contributing employer.[55] Thus, community colleges and school districts are given an option similar to nonprofit institutions. It is interesting to note, however, that the option is precisely the opposite as provided for a

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[52]The Act had, for example, provided a benefit differential to a claimant with two dependents, one of whom was a child, as opposed to a claimant with two dependents, neither of whom was a child.

[53]Sec. 42(8). Coverage under this section was also extended to political subdivisions of the State.

[54]Given immediate effect, the Amendments, except as otherwise provided, became effective June 9, 1974, in accordance with Section 66(1).

[55]Sec. 13(i).

nonprofit organization which is a contributing employer unless it elects to make reimbursement payments in lieu of contributions.[56] Accordingly, community colleges and school districts are now faced with essentially the same consideration in reviewing their operations as were nonprofit institutions of higher education as a result of the 1971 Amendments.[57]

Secondly, the Amendments provide that in the case of an individual employed by a school district or community college, a week in which the individual worked less than 12 hours shall not be used in support of a claim for benefits.[58] This provision imposes a restriction not in effect with regard to any other covered employment.

Third, and most significantly, the Amendments introduced a new concept, a "denial period," with regard to benefits based on service for a school district or community college. A "denial period" is defined as a vacation period or holiday recess occurring during the academic year, a period between two successive academic years or terms or a period of paid sabbatical leave provided for in an individual's

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[56]Sec. 13(a).

[57]These considerations are presented in the following chapter. Whereas other reimbursing employers are required to make payment to the Commission quarterly, community colleges and school districts will be required to reimburse the Commission annually. This will pose an additional factor for consideration, that being "cash flow";--Sec. 13(c)(1) and Sec. 13(k)(2).

[58]This feature is unique to coverage as it applies to school districts and community colleges. The only criterion used with regard to other covered employment is that the individual must have earned wages in excess of $25.00 during a calendar week for that week to be counted--Sec. 50(b)(5) and Sec. 50(b).

contract.[59] The Amendments provide that benefits shall not be paid to an individual for any week of unemployment within a denial period if the individual normally would not perform services during that period.[60] Therefore, while coverage has been extended to employees of school districts and community colleges, the Michigan Legislature has done so with apparent recognition of the seasonal and part-time nature inherent to their employment.[61]

Benefit Payment Structure

With the extension of coverage under the Michigan Employment Security Act to community colleges, employees of all institutions of higher education, whose services are not specifically exempt, will accumulate benefit rights in the same manner as employees of other employers subject to the Act. The accumulation of benefit rights by an employee, however, of itself is not a liability to the employer nor does it become one so long as employment is not terminated and the (former) employee does not become unemployed.[62] Once unemployed,

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[59] Sec. 27(i)(4). [60] Sec. 27(i)(2).

[61] Part-time instructors retained to teach a single course, crossing guards and lunchroom workers, for example, may not satisfy the 12 hour requirement and, as such, would not be eligible for benefits based upon such service during any period of unemployment. Others, whose employment may be scheduled on a school year contract, would similarly be ineligible for benefits during periods when school is not in session.

[62] Michigan Employment Security Act, op. cit., Sec. 48. "An individual shall be deemed unemployed with respect to any week during which he performs no services and with respect to which no remuneration is payable to him, or with respect to any week of less than full time work if the remuneration payable to him is less than his weekly benefit rate. . . ."

specific provisions of the Act govern the computation of benefits, eligibility and qualification therefor and, in essence, the actual liability which may accrue. Some understanding of the benefit payment structure is, therefore, essential to an understanding of this study. With this in mind, a general outline of the benefit provisions follows.

To be entitled to benefits, an individual must only have earned wages in covered employment in excess of $25.00 during each of at least 14 of the 52 consecutive calendar weeks preceding the week with respect to which the individual files an application for benefits.[63] Such weeks are called credit weeks and may be earned with a single employer or in any combination with two or more employers.

To be eligible for benefits, an unemployed individual must: (1) file a claim for benefits; (2) register for work with a branch office of the Commission; (3) be able and available to perform full-time work on any shift which he or she is qualified to perform by past experience or training, and of a character generally similar to work for which he or she has earned wages; and (4) must be seeking work.

Benefits payable to eligible individuals range from $16.00 to $106.00 per week, as prescribed by the Act on the basis of the average weekly wage of a claimant's credit weeks and the number of dependents a claimant may declare.[64] Benefits are computed at the rate of three weeks of benefits for each four credit weeks earned to a maximum of 26 benefit weeks.[65]

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[63] Ibid., Sec. 46. [64] Ibid., Sec. 27(b), Sec. 27(b)(2).

[65] Ibid., Sec. 27(d)(1).

Under the extended benefit program now in effect, a claimant who has exhausted his or her benefit rights may receive extended benefits for half the number of weeks of his or her regular entitlement up to a maximum of 13 weeks.[66] The overall limit on regular plus extended benefits is 39 weeks.

Benefits may be denied, however, under certain conditions. The Act provides that an individual shall be disqualified for benefits in all cases in which he or she: (1) has left work voluntarily without good cause attributable to the employer; (2) has been discharged for misconduct connected with his or her work, or for intoxication while at work; (3) has failed without good cause to apply for, interview for, or accept available suitable work; (4) has lost his or her job by reason of being absent from work as a result of a violation of law for which he or she has been convicted, and sentenced to jail or prison; (5) has been discharged for participation in a strike or other concerted action contrary to the provisions of an applicable collective bargaining agreement, or participation in a wildcat strike not authorized by the individual's recognized bargaining unit; or (6) has been

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[66] Ibid., Sec. 64. The 1970 Amendments to the Federal Unemployment Tax Act provide for payment of extended benefits when the national rate of insured unemployment equals or exceeds 4.5 percent for three consecutive calendar months and remains in operation until the rate drops below 4.5 percent for three consecutive calendar months. The Michigan extended benefit program goes into effect when Michigan's insured unemployment rate averages 4 percent for any 13 consecutive week period and exceeds 120 percent of the average rate for the same 13 week period in each of the two preceding years and remains in effect until the rates drop below these levels for a similar period.

discharged for an act of assault, theft or sabotage connected with his or her work.[67]

An individual disqualified in accordance with any of the foregoing, however, may requalify for benefits after a period of six weeks except that with regard to a disqualification for an act of assault, theft or sabotage, the period is extended to 12 weeks.

The computation of benefits, entitlement and eligibility therefor are made by the Commission. When an individual files a claim for benefits, the employer or employers upon whose employment the claim is based are notified and required to furnish the Commission with such wage and separation information as it deems necessary to determine the claimant's benefit rights.[69] If an employer fails to respond with the required information within seven days after the mailing date of the request, the Commission will make a determination upon the available information, i.e., that supplied by the claimant. It is not only required, therefore, but in the interest of the employer to bring to the attention of the Commission any information that may give rise to a determination of ineligibility or a disqualification.

If either the claimant or the employer does not agree with the Commission's determination, a redetermination may be requested. Subsequent appeals may be made to a referee, an appeal board, a circuit court, the Court of Appeals and the Supreme Court, in that order.[70]

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[67] Ibid., Sec. 29(1). [68] Ibid., Sec. 29(3). [69] Ibid., Sec. 32(b).
[70] Ibid., Sec. 32(a), Sec. 33, Sec. 34, Sec. 38.

Thus, while benefit payments chargeable to an institution of higher education are prescribed and regulated in accordance with a body of law, the actions giving rise to these payments originate with the institution. Furthermore, while the Commission is charged with administering the program in accordance with the Act, it is dependent and relies upon information supplied by the parties to a claim, i.e., the former employee and the employer upon whose employment the claim is based. Accordingly, from the initial response to the Commission, through the appeals process an institution of higher education, as any other employer, is afforded an element of control over the charges to its account. It is this control, in part, to which this study is addressed.

CHAPTER III

ACCOUNTABILITY IN THE ADMINISTRATION OF UNEMPLOYMENT COMPENSATION

Introduction

Unemployment compensation is a new liability to Michigan institutions of higher education. At the outset, administrators could not draw on past experience in their attempts to regulate or control the costs inherent to this program. Advice from those writing in association newsletters, bulletins and trade journals, therefore, took on added significance.

A review of this literature reveals a fairly uniform approach stressing the need to establish strong, centralized control procedures to cope with this new cost burden. Control, however, can not be effectuated without accountability. Yet there was scant mention to this aspect of the control process.

This chapter, therefore, is structured toward an understanding of the nature of unemployment compensation and the causes giving rise to it, a development of the concept of accountability, and the application of controls and accountability to unemployment compensation.

The Insurance Character of Unemployment Insurance

This study is concerned with the program which is commonly referred to as unemployment insurance. In Michigan, it is administered by a Bureau of Unemployment Insurance under the direction of the

Michigan Employment Security Commission. The Federal Unemployment Tax Act, however, does not contain the term "unemployment insurance." Nor is the term contained in the Michigan Employment Security Act, with one exception. The term appears in reference to authority granted to the Michigan Employment Security Commission to "enter into agreements with any agency of another state or of the United States charged with the administration of any unemployment insurance or public employment service law."[1] Neither Act provides for the purchase of insurance, although the Michigan Employment Security Act does make one reference to "insured work"[2] and twice uses the term "insured employment."[3] Nor does either act refer to employer payments as "premiums."

The Federal Act imposes an excise tax on every employer, as defined therein, with respect to having individuals in his employ.[4] It allows that the taxpayer may take certain credits against the tax based upon contributions paid by him into an unemployment compensation fund maintained under the unemployment compensation law of a state.[5] The Michigan Act, accordingly, stipulates that each subject employer shall pay contributions for the unemployment compensation fund. The Michigan Act further provides that an employer's contribution shall not be

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[1]Michigan Employment Security Act, Act No. 1 of the Public Acts of the Extra Session of 1936, as amended (1974), Sec. 11(f).

[2]Ibid., Sec. 28(1)(c).

[3]Ibid., Sec. 64(5)(a), Sec. 64(5)(b).

[4]Internal Revenue Code of 1954, Sec. 3301 (1970).

[5]Ibid., Sec. 3302 (1970).

deducted directly or indirectly, in whole or in part, from wages of individuals in his employ.[6]

With regard to payments made to qualified and eligible individuals involuntarily unemployed, again, neither act refers to such as insurance proceeds. Such payments are referred to as unemployment compensation or benefits, these two terms used with apparent synonymity.

To the recipient of unemployment payments, it is perhaps of little import as to whether such payments are designated as compensation, benefits, or insurance proceeds. In the sense that these payments, or the assurance of such, provide protection from the hazards of unemployment,[7] covered employees are insured. The wage earner is protected, as Malisoff points out,[8] from loss of income on account of layoff or termination and loss of income because he leaves his position for good cause, both generally considered to be insurable risks. Malisoff also points out that the wage earner is protected from loss of income arising out of his voluntarily leaving his job without good cause or as a result of discharge for misconduct, risks which would not generally be insurable if the program were underwritten by private carriers. Although benefit entitlement in accordance with the provisions of the Michigan Employment Security Act may vary with these risks, the wage earner is nevertheless protected as an insured in each case.

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[6]Michigan Employment Security Act, op. cit., Sec. 13.

[7]*Ibid.*, Preamble.

[8]Harry Malisoff, The Insurance Character of Unemployment Insurance (Kalamazoo, Michigan: W. E. Upjohn Institute for Employment Research, 1961), pp. 11-12.

Haber and Murray review the insurance character of unemployment insurance[9] as does Malisoff[10] and conclude that the risk covered does meet the tests of insurability. The tests to which they refer are: (1) there must be a pure, not a speculative, risk; (2) an economic loss must be involved; (3) the occurrence of the risk must be verifiable; (4) the risk must be subject to the law of large numbers; and (5) that the contingency happens to only a portion of the insured at any one time. It is significant to note, however, that the tests have been applied to the insurance character of unemployment compensation from the standpoint of the "insured" worker rather than the employer who must pay the costs thereof. The employer can not purchase insurance to provide this statutory coverage for the employee or to protect his own interests; instead he is taxed and required to make contributions or reimbursements to the State Unemployment Compensation Fund from which benefits are paid. State institutions of higher education in Michigan reimburse the State Unemployment Compensation Fund for all benefits paid attributable to their status as covered employers and are not even afforded "stop-loss"[11] protection. "Whatever the

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[9] Haber and Murray, Unemployment Insurance in the American Economy, pp. 36-43.

[10] Malisoff, op. cit., p. 43.

[11] A provision in an insurance policy designed to cut off their insurer's loss at a given point. Source: Robert W. Osler and John S. Brickley, Glossary of Insurance Terms (Santa Monica, California: Insurors Press, 1972), p. 147.

characterization of this system," Malisoff comments, "it is not insurance, but rather self insurance."[12]

Private institutions of higher education in Michigan are afforded limited protection of an insurance character which is described in the following section. Thus, the unemployment compensation program may more properly be considered as a social welfare program which to the out-of-work wage earner may be viewed as one providing income loss protection in the nature of insurance, but which to the employer is lacking in the protection of his assets as might normally be afforded through the purchase of insurance.

Methods of Funding

The Employment Security Amendments of 1970, as has been noted, make a distinction between private nonprofit and public institutions of higher education with regard to the method employed to fund benefit payments. But whereas the method of funding is prescribed for public institutions, private institutions are given an option. Essentially, the option is that they may elect to be accorded the same special treatment as public institutions. Should a private institution decide not to exercise this option, it then would be treated the same as any other employer in the state.

In this section the differences in the two methods and the considerations which must be studied by a private institution are presented.

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[12]Malisoff, op. cit., p. 16. The specific reference here is to reimbursement to state funds by the Federal government for benefits paid to terminated Federal personnel.

Private Nonprofit Institutions

Private institutions of higher education for whom coverage is required under the provisions relating to nonprofit organizations may choose to finance their unemployment compensation program by making quarterly contributions to the Michigan Employment Security Commission for the Unemployment Compensation Fund of the State. Under this method of financing, their costs are fixed at a tax rate of 2.7 percent on the first $4,200.00 each covered individual earns in their employ. The rate remains constant for the first three calendar years of liability, after which it may be less than 2.7 percent, depending upon the stability of each institution's employment and payroll and the amount of benefits paid to former employees.

After the fourth year, the 2.7 percent limitation is removed and, again based upon each institution's own experience, may in the fifth year be as high as 6.1 percent and in the sixth and subsequent years as high as 6.6 percent of covered payroll. With favorable experience, an institution's rate may, on the other hand, be reduced to as low as .1 percent of covered payroll. Under the contribution method of financing, a private institution is, to a degree, afforded insurance protection in that the costs may be held within known confines in relation to covered payroll dollars.

For budgetary purposes, the advantages of this method are readily apparent. Inasmuch as the tax rates are established one calendar year in advance, the costs for all or a part of the next affected fiscal year can be estimated with reasonable accuracy. Additionally, within the minimum and maximum tax rate structure, future costs can be projected within known confines.

In lieu of the contribution method of financing, a nonprofit institution of higher education may elect to reimburse the Commission for all benefits charged to its account. The election, however, must be exercised within 30 days following a determination that it is subject to the Act. Those nonprofit institutions of higher education in existence on January 1, 1972, were allowed 30 days from that date to exercise this option.[13] Institutions that chose not to, therefore, automatically became contributing employers for the first calendar year of coverage and remain so unless prior to 30 days before the beginning of any subsequent calendar year they elect to become reimbursing employers. In either case, the election must be for a period of not less than two calendar years.

In considering the option to be "taxed" as a reimbursing employer, administrators of private nonprofit institutions of higher education were faced with a difficult task. They had to analyze past experience and present conditions in order to determine whether or not it would be advantageous in relation to the contribution method of financing for at least the initial two year period commencing January 1, 1972, and ending December 31, 1973.

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[13] Although the Commission will not release figures on the number of nonprofit institutions of higher education exercising the option to become reimbursing employers, of the approximately 2,700 nonprofit organizations which became subject to the Act in 1972, 715 or approximately 26 percent chose to do so. Source: Michigan Employment Security Commission, Annual Report for Fiscal Year 1973, p. 93.

In an address to the College and University Personnel Association, Harold Keller pointed out that the choice of the method of payment is not one that can be decided on the basis of generalizations and must be based on projections involving a number of intangible factors and "guestimates."[14] A thorough and detailed analysis of personnel records and practices reduced to cost estimates for unemployment benefits which may result therefrom within the framework of the State's program is essential. Keller posed five questions to be answered within this context by each institution considering the election to become a reimbursing employer: (1) What is the rate of employment turnover, including temporary and part-time personnel? (2) Are there seasonal layoffs in the summer or between terms? (3) What proportion of the institution's payroll is excluded from coverage under the provisions of the State Act? (4) How tight are employment standards and employee rules? and (5) Are there sound management practices and controls so that the reasons for separations can be factually communicated and documented by the office charged with responding to unemployment compensation claims filed by former employees?[15]

Each of these questions had to be answered in terms of the institution's own operations and coupled with a thorough understanding of the applicable provisions of the State Act. For example, in Michigan,

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[14]Harold Keller, "Unemployment Insurance--A New Cost Burden for Colleges and Universities," Journal of the College and University Personnel Association, March, 1971, pp. 25-32.

[15]Ibid., p. 26.

an individual receives credit toward unemployment benefits for each week in which he or she earns more than $25.00 in covered employment. In considering a part-time employee's potential eligibility to draw benefits, the frequency, duration and scheduling for employment are not considerations except as a function of potential weekly earnings. Thus, it is immaterial in considering the potential eligibility for benefits with regard to an individual stagehand who is employed for a single performance at an hourly rate of $4.17 that his employment is for only six hours in any given week. He has earned a credit week which may be used in a determination of eligibility to receive benefits during a subsequent period of unemployment.[16]

The Michigan Act also provides that excluded from covered employment is service performed in the employ of a school, college or university, if the service is performed by a student who is enrolled and regularly attending classes at such school, college or university.[17] "Student," however, is not defined in the Act, leaving the interpretation to be decided in light of each individual claimant's circumstances, an interpretation which may ultimately have to be decided in the courts. For any institution employing such students, the interpretation may have a pronounced effect on the amount of potential benefits charged against its operations and must, therefore, be a consideration in any

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[16]It should be noted, however, that the amount of weekly benefits received is calculated on the basis of average weekly wages. To the extent that the number of hours worked may yield a higher weekly wage and a greater weekly benefit, it is a material consideration.

[17]Michigan Employment Security Act, <u>op. cit</u>., Sec. 43(1).

decision made with regard to the method of financing an institution's program.

The election to become a reimbursing employer, as noted previously, must be for a period of not less than two years. Thus, those nonprofit institutions which may have elected to become reimbursing employers on the effective date of coverage under the 1971 Amendments to the Michigan Employment Security Act, i.e., January 1, 1972, were given the option of terminating the election by filing a notice to that effect not later than 30 days prior to January 1, 1974.[18] Thus, it is assumed that such institutions again reviewed their programs, this time based upon their actual experience during the first two years of coverage, toward an estimation of their liability for the current year and a decision as to whether or not it would be to their advantage to remain a reimbursing employer another year.

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[18]Sec. 13(b)(1) of the Michigan Employment Security Act provides that "A nonprofit organization which makes an election (to make reimbursement payments in lieu of contributions as a reimbursing employer) shall continue to be liable for reimbursement payments in lieu of contributions until it files with the Commission a written notice terminating its status as a reimbursing employer. A notice of termination may not be filed later than thirty days before the beginning of the calendar year when the termination is to be effective." Sec. 13(b)(2) provides that "A nonprofit organization which pays contributions under this Act for a period subsequent to January 1, 1972, may elect to become a reimbursing employer by filing a written notice of election with the Commission not later than thirty days before the beginning of a calendar year for which the election is effective. An election may not be terminated by the organization for the same year the election is made or for the following year." Thus, a nonprofit institution may elect to become a reimbursing employer for a period of not less than two years, terminate the election for a period of not less than one year and again elect to become a reimbursing employer for a period of not less than two years as often as it chooses. The process of review in terms of the costs to a nonprofit institution of higher education as a contributing employer or as a reimbursing employer is, therefore, an ongoing one.

Private nonprofit organizations which chose not to exercise the election to become reimbursing employers for the initial two year period were faced with the same considerations toward the end of 1972 in making a determination as to whether or not they should then elect to become reimbursing employers.

Regardless of their choice of the method of financing, private nonprofit institutions are faced with excessive costs if they do not structure their programs to minimize the incidence and duration of benefit claims attributable to their employment. Should they choose the reimbursing method, they will be charged directly for every dollar in benefits paid under the state program and one half of all benefits paid under the Federal extended benefits program. Should they choose the contribution method, they will remit to the state contributions based upon their covered payroll at a predetermined rate. But as noted previously, this rate is adjusted annually after the third year on the basis of the amount of benefits paid to former employees and may deviate significantly from the standard rate of 2.7 percent or $113.40 on the first $4,200.00 each covered individual earns in their employ. On the basis of unfavorable experience, currently the rate may be raised to 6.6 percent or $277.20 for each person at the maximum. With favorable experience, on the other hand, the rate may be reduced to as little as .1 percent or $4.20 per person. As readily can be seen, for an institution with as few as 100 covered employees, each earning at least $4,200.00, the difference is that between $420.00 and $27,720.00, or $27,300.00 per year.

State Institutions of Higher Education

Under the provisions of the Michigan Employment Security Act, state institutions of higher education are reimbursing employers and may not elect to pay contributions.[19] The same is true for an institution of higher education operated by a political subdivision which elects to be subject to the Act.[20] Thus, a determination of alternative costs under the two methods of financing by institutions of higher education operated by the state or its political subdivisions, while perhaps of interest, serves no end within the present structure of the Act.

A review of their operations, taking into consideration many of the same factors, however, will be essential for budgetary consideration. Such would undoubtedly also point to the strengths and weaknesses in the institution's employment practices upon which appropriate action may be taken.

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[19]The Michigan Employment Security Act, Sec. 13(g)(1), stipulates that "In lieu of the contributions required of employers . . . a state institution of higher education . . . shall pay into the fund an amount equivalent to the amount of benefits paid and charged to their respective accounts as well as that portion of extended benefits which are based on employment by them and not reimbursable by the Federal government."

[20]The Michigan Employment Security Act, Sec. 25(2), provides that a political subdivision may elect by ordinance or resolution to cover all services performed for it in employment in all of its institutions of higher education, and Sec. 25(2) provides that a political subdivision electing such coverage shall make payments in lieu of contributions with respect to benefits attributable to the employment. Effective January 1, 1975, when compulsory coverage is extended to community colleges, they will be afforded the election to pay contributions.

As reimbursing employers, state institutions of higher education, in an effort to control costs attributable to their coverage under the Act, must concentrate their efforts on an internal program structured to cope with situations which may unnecessarily result in benefit payments chargeable to their accounts.

Unemployment Causes

While this study does not purport to provide insight into the forces at work in the economy which result in fluctuations in the demand for employer services, a categorization of the types of unemployment with which we are dealing is essential to an understanding of the problem. Haber and Murray suggest that a meaningful approach can be derived through classification of all unemployment into: (1) short-term or frictional unemployment, (2) cyclical unemployment, and (3) unemployment due to structural and technological developments.[21] Institutions of higher education in Michigan, as elsewhere, contribute to and are affected by all three.

A large part of frictional unemployment is that which results from people entering or leaving the labor market or being idle while changing from one job to another. It presents no special problem to a nation's economy and, in the sense that labor force mobility is viewed favorably, is the sign of a healthy economy.[22] Institutions of higher education, as employers in general, can exercise little control over

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[21] Haber and Murray, Unemployment Insurance in the American Economy, p. 10.

[22] Ibid., p. 11.

these actions although review of the circumstances leading thereto is warranted as they may be symptomatic of unrest or employee dissatisfaction. Of greater concern is that part of frictional unemployment which results from the constant change in demand for workers of a temporary nature for any of a variety of reasons. Relating this to institutions of higher education, examples which can be cited are the changing demand for laboratory technicians and similar specialists within the research program as grants and contracts commence and conclude, or the changes in staffing needs as demand for auxiliary services fluctuates during the year. This aspect of frictional unemployment is characterized by short-term layoffs after which the workers return to their former or similar jobs.

Of even greater concern, however, is that part of frictional unemployment attributable to seasonal demand for the services of workers. Institutions of higher education traditionally operate on an academic year. Regardless of whether an institution operates on a semester, trimester or quarter system, there is generally some period during which it is not in full operation or during which enrollments are low. In terms of employment, the operation of residence halls and other student housing serves as the most graphic illustration of seasonal demand for services and hence, demand for those who provide these services. Additionally, climatic changes in Michigan, with the attendant needs in campus maintenance, often create differential staffing requirements throughout the four seasons, which may give rise to concomitant hiring and furloughing of workers with different skills.

Cyclical unemployment, as used by Haber and Murray, is that caused by economic factors and conditions on a national scope and is generally characterized by business recessions.[23] Institutions of higher education, both public and private, are affected directly by such exogenous factors. During recessionary periods, reduced state and Federal funding, a decline in benevolent and philanthropic support, lower yield from investment portfolios and lower student enrollments are examples of probable effects. All may force reduction in program and supportive services with attenuating effect on the work force. Indeed, at this writing the "energy crisis" alone has given rise to startlingly high levels of unemployment in Michigan and its effects must be taken into account in fiscal consideration, both short and long term.

Technological and structural unemployment is that resulting from changes in demand for products, availability of resources, major shifts in national priorities and improved production technology.[24] Institutions of higher education are by no means immune to the effects of these developments. Their impact is felt both in internal operations and in the demand for the institutions' graduates. Computer technology has revolutionized record keeping on many fronts, displacing clerks, bookkeepers and stenographers, among others, with computer programmers and operators. Changes in the aerospace program alone have caused the demands for engineering graduates to rise and fall dramatically in the last 16 years following the launching of Sputnik, with

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[23] Ibid., p. 13. [24] Ibid., p. 14.

concomitant fluctuations in the demand for the services of those who staff and support the engineering curriculum.

Some unemployment, then, is inevitable and unavoidable. In other instances it may be inherent to cyclical factors in the economy or seasonal demand for services. Some unemployment, however, is unquestionably due to poor scheduling, overstaffing for interim needs and independent as opposed to cooperative action by institutional departments. To the extent it might have been avoided, the institution can be held accountable.

The Concept of Accountability

The term accountability today has a multiplicity of uses. It is used in relation to and often interchangeably with such terms as measurement, efficiency, evaluation, assessment and responsibility. Mortimer suggests that the confusion results from three different areas of concern, which can be classified as managerial accountability, accountability versus evaluation, and accountability versus responsibility.[25] The terms are admittedly by no means mutually exclusive. Some distinction, however, does appear essential to place the terms in proper context within the meaning of this study.

Control is the keystone to managerial accountability and the prime purpose of management control is to hold organizations and those who direct them accountable for their performance.[26] It is rooted

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[25] Kenneth P. Mortimer, Accountability in Higher Education (Washington, D.C.: American Association for Higher Education, 1972), p. 2.

[26] *Ibid.*, p. 4.

in the basic elements of classical organization theory. Control seeks to compel events to conform to plans: It measures performance, corrects negative deviations and thus assures the accomplishment of plans.[27] "Compelling events to conform to plans means locating the persons responsible for negative deviations from planned action and taking the necessary steps to improve performance."[28]

Accountability relates to the liability for the proper discharge of duties by a subordinate.[29] Thus, a dean is accountable to the Provost, the Provost is accountable to the President, the President is accountable to the Board of Trustees and the Board of Trustees is accountable to its various publics.

In the literature today a confusion also exists in the use of the term accountability in relation to the duties of subordinates for which accountability may be exacted and the effects of their actions. In the narrowest sense, drawing upon the concept of accountability as used in military organizations, it is used to indicate the duty of an officer to keep accurate records and to safeguard public property and funds.[30] Conspicuously absent from this definition is any suggestion of a value judgment as to the manner in which the public property and funds were or might have been used toward achievement of the organization's goals or objectives. Nor does it suggest a measure of latitude or discretionary use thereof.

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[27]Harold Koontz and Cyril O'Donnel, Principles of Management (New York: McGraw-Hill Book Company, Inc., 1968), pp. 50, 639.

[28]*Ibid*., p. 50. [29]*Ibid*., p. 66. [30]*Ibid*., pp. 66-67.

At seemingly the other end of the spectrum, accountability, as the new "in" word in American education, is aimed at learning the effects of education and whether or not the institution is living up to its claims.[31] Both public and private institutions of higher education are finding themselves held accountable for the outcomes or consequences of higher education. "Public institutions, obviously, are accountable for their expenditure of appropriated funds. . . . As private colleges and universities secure state support, they too will find themselves publicly accountable."[32] And, as Perkins cautioned, "With public support comes the inevitable public scrutiny, not simply of how the money is spent but how well the product turns out."[33] It is this usage which Mortimer refers to as the confusion resulting from accountability versus evaluation. Hartnett, however, argues that while the overlap between the concepts is substantial, evaluation and accountability are not the same.[34] Evaluation in higher education is a process of self-study. Its concern is directed toward an analysis of the strengths and weaknesses of the organization specifically with regard to how well it has met defined objectives. Evaluation "is concerned primarily with educational effectiveness (the degree to which it succeeds in doing whatever it is trying to do), whereas accountability

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[31]Rodney T. Hartnett, Accountability in Higher Education (Princeton, New Jersey: College Entrance Examination Board, 1971), p. 6.

[32]T. R. McConnel, "Accountability and Autonomy," Journal of Higher Education, June, 1971, pp. 447-49.

[33]James Perkins, The University and Due Process (Washington, D.C.: American Council on Education, 1967), p. 4.

[34]Hartnett, op. cit., pp. 5-8.

. . . is concerned with effectiveness <u>and efficiency</u> (its capacity to achieve results within a given expenditure of resources). . . ."[35] Thus, by Hartnett's definition, accountability encompasses evaluation although its emphasis may be more on measurement in relation to the resources expended, i.e., efficiency, than on the degree to which the outcomes adhere to expectations, i.e., effectiveness.

The distinction between accountability and responsibility, or to return to Mortimer accountability versus responsibility, is not so easily delineated. Koontz and O'Donnel define responsibility as the obligation of a subordinate, to whom a duty has been assigned, to perform the duty.[36] By their definition, the essence of responsibility is obligation. In this usage, accountability means responsibility.[37] Neff, however, argues that while accountability and responsibility have been used synonymously, the two terms are diametrically opposed in reality.[38] Accountability emphasizes authority, hierarchy and sanctions, whereas responsibility highlights individuality, diversity and choice. Accordingly, Neff proposes "that 'responsibility' be used to refer only to the <u>voluntary assumption of an obligation</u> [emphasis added], while 'accountability' be used to refer to the legal liability assigned to the performance or non-performance of certain acts or duties."[39] While the distinction proposed by Neff might be

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[35] <u>Ibid.</u>, p. 5. [36] Koontz and O'Donnel, <u>op. cit.</u>, p. 65.

[37] <u>Ibid.</u>, p. 67.

[38] Charles B. Neff, "Toward a Definition of Academic Responsibility," <u>Journal of Higher Education</u>, January, 1969, p. 14.

[39] <u>Ibid.</u>

useful, the current meaning of the terms can be understood only in terms of their usage. Spiro distinguishes three major, and mutually related, connotations in which people speak of responsibility: accountability, cause and obligation.[40] In a given instance, we may mean all three. Drawing on Spiro's example, when we say the Secretary of State is responsible, under the President, for the conduct of our foreign affairs, we mean first that he is accountable for the manner in which such relations are conducted; second, that he is a cause of the course which they take; and third, that he is under obligation to conduct them. Thus, by Spiro's definition, responsibility encompasses accountability.

From the literature, then, it is concluded that the term accountability in current usage may be used within a narrow confine, as in the military organization definition of Koontz and O'Donnel,[41] to a far more general and encompassing definition, as used by Hartnett,[42] which includes evaluation, or as a part of the concept of responsibility, as suggested by Spiro.[43] There are, nevertheless, elements common to all. In each case, accountability is construed to be a legal liability of a subordinate to perform in a predetermined manner or toward the accomplishment of predetermined goals or objectives. Inherent to each also is the assumption of implicit or explicit authority necessary

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[40]Herbert J. Spiro, Responsibility in Government (New York: Van Nostrand Reinhold Company, 1969), pp. 14-20.

[41]See note 27. [42]See note 28.

[43]See note 37.

to accomplish the stated task.[44] Also inherent to each is the concept that control is an essential component of any definition of accountability.[45]

This study is concerned with management accountability. As defined herein, it shall mean the legal liability exacted from subordinates and for which they are answerable to a higher authority for the expenditure of funds allocated to them for the accomplishment of predetermined goals and objectives and over which they have discretionary use.

Control of Unemployment Compensation Costs

The intent of the unemployment compensation program is stated in the Michigan Employment Security Act as being to encourage employers to provide stable employment and to provide funds to be used for the benefit of persons unemployed through no fault of their own.[46] It is, therefore, stated as public policy that efforts by employers to preclude the payment of unemployment compensation through programs

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[44]See Herbert A. Simon, Donald W. Smithburg, and Victor A. Thompson, Public Administration (New York: Alfred A. Knopf, 1964), pp. 215-16, for a discussion of authority commensurate with responsibility. The authors' position is that for an individual or an organization to be held accountable for carrying out a particular task, sufficient formal authority, budgetary resources, personnel and other resources of sufficient quantity must be allocated so that, if used with a reasonable degree of efficiency, the task assigned may be carried out. In their view, "any administrator who had been given authority of this scope would probably be willing to be held accountable for the results of his work" (p. 216).

[45]Even within the narrow definition with regard to military organizations; Koontz and O'Donnel conclude that "it clearly has strong overtones of a control technique" (p. 67).

[46]Michigan Employment Security Act, op. cit., Sec. 2.

structured to minimize fluctuations in employment are in the public interest. It is also inherently implied that there is no intent that the program should foster or result in payment of benefits to any who are unemployed through their own choice. Indeed, the Act specifically provides that to be eligible for benefits, an individual must be registered for work at an employment office and be seeking work.[47] Additionally, it is stated that he must be available to perform full-time work of a character which he is qualified to perform by past experience or training.[48] Accordingly, it is not contrary to public policy for an employer to do all within his power to prevent the payment of benefits to those who do not qualify. Through both of these courses, i.e., through efforts to stabilize employment and through the establishment of procedures to assure that payments will not be made to those who do not qualify, an institution of higher education can hold down the cost of benefits chargeable to its account.

Ray Fortino, Assistant Vice-President for Personnel Services at Pennsylvania State University, advised institutions of higher education to:

> 1. Centralize hiring. "If department heads have the right to hire even casual personnel without central administration knowledge," he cautioned, "two things can happen and they are both bad." First, such personnel may acquire benefit rights which might otherwise have been avoided through better scheduling. Secondly, if all hiring is not centrally controlled, a department head may employ a new person to perform work that can be performed equally well by a former employee who is receiving unemployment benefits;
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> 2. Stabilize employment. Departments should share employees when workloads vary and to meet seasonal demands. Student employees, who are not covered under the legislation, can be used when workloads

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[47] Ibid., Sec. 28(1)(a). [48] Ibid., Sec. 28(1)(c).

are especially great and other permanent employees are not available;

3. Make better use of probationary periods. Nonproducers and less than satisfactory employees should be terminated before they have accumulated sufficient credit weeks upon which to base an unemployment claim;

4. Consider use of outside contractors. If an assignment is known to be temporary and a layoff is therefore inevitable, claims can be avoided by using outside contractors to fill the positions.

5. Centralize compensation form handling. By directing the State Employment Security Office to send all claims and related forms to one office at the institution responsible for their handling, costly delays can be avoided. (In Michigan, employers have seven days from the date a claim is filed to respond to the Commission with wage and separation data.);

6. Hold exit interviews. Interviews with dismissed or terminated employees can help determine reasons for turnover and provide information relating to possible future claims;

7. Publicize the program. Personnel should be informed that it is the institution, not the employee, which pays the cost of unemployment compensation. It should be emphasized that assistance will be given to those with legitimate claims but that the institution will challenge those who do not appear to fall within the purpose of the program;

8. Have procedure for contacts with claimants. Every effort should be made to find suitable alternate work for former employees who have filed claims for unemployment benefits. Additionally, if a claimant is found to be unavailable for work, payment can be challenged;

9. Examine practices for hiring temporary faculty. Employment of temporary faculty to meet occasional needs can result in unemployment compensation claims;

10. Coordinate centrally all dismissals and layoffs. Advance notice of layoffs from supervisors can facilitate reassignment to other areas of the institution.[49]

Fortino also raised the questions: "Should costs be handled centrally or charged to departments causing claims?" and "What charges

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[49]Ray T. Fortino, "Unemployment Insurance: How to Get Ready for Coverage in 1972," The College and University Business Officer, June, 1971, pp. 1-2.

should be made to research contracts and auxiliary enterprises to build a fund for layoffs within those enterprises?" for which he offered no advice.

In the months preceding the effective date of coverage, others writing in the trade journals and association newsletters presented a rather uniform approach toward development of programs structured to accomplish these same ends. Keller advised administrators of institutions of higher education (1) to study employer manuals and other publications issued by the respective state unemployment agencies, to become familiar with questions of coverage and eligibility; (2) to work to get the most favorable legislation;[50] (3) to set up good standards of employment stabilization; (4) to build a sound system of internal controls; and (5) to be prepared to handle claims responsibly and speedily.[51] With regard to employment standards and stabilization, Keller advised that wage standards should be weighed against unemployment benefit costs, pointing out that low pay scales which lead to high turnover can be, in the light of the additional benefits in the form of unemployment compensation, an expensive risk: A $108.00 a week clerk in Michigan can draw as much as $60.00 a week in unemployment benefits for as long as 26 weeks following separation. He also advocated realistic probationary periods for new employees, stating that

[50]As has been noted, unemployment compensation programs are administered by the states in accordance with state laws enacted, and in a real sense mandated, by the Federal Unemployment Tax Act. While certain features are required as a condition of certification of a state's act by the Secretary of Labor, there are areas in which a great deal of latitude in the design of a state's program is permissible.

[51]Keller, "Unemployment Insurance," pp. 27-32.

while it may take three to six months to judge the performance of a professional, executive or high-skilled technician, three or four weeks should be adequate to determine if a kitchen helper or clerk is capable of doing a good job. Since eligibility for benefits and duration of benefits is based partly on length of employment, it can be costly to retain someone who does not meet job standards and will eventually be terminated as a result thereof. Keller too advised that outside contractors be employed for temporary needs and short-term seasonal peaks.

With regard to building a sound system of internal control, Keller emphasized many of the same points as Fortino. Among these, he listed setting up a uniform system of recruitment, with all departments following the same standards and coordinated centrally; rehiring from lists of those currently drawing benefits on the basis of past employment with the institution; establishing a system of detailed records in which all personnel actions that may or do result in employee discharge or termination are entered and communicated to the office handling unemployment compensation; and a formal exit interview procedure.

Diedrich Willers, Cornell University's Personnel Director, stressed the importance of exit interviews; adoption of a policy of filling vacancies with those workers receiving unemployment compensation; and consolidation of seasonal, casual and temporary jobs.[52] "It is absurd to be paying a laid-off secretary $50.00 per week for benefits, while filling a vacant position with a new applicant," he emphasized.

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[52]Willers, "Impact of Extension of Unemployment Compensation," p. 9.

In later months, John Adams summed up their arguments in stating:

> It is vital that each institution seek to regularize and stabilize its employment, minimizing both summer layoffs and personnel turnover by centralizing the personnel functions so as to assure continuous utilization of persons by skill in different contexts, and to discourage layoffs and simultaneous hiring for unskilled and many skilled functions. To be effective, all hiring should be centralized.[53]

Adams, however, went one step further in what would appear to be an answer to the questions raised by Fortino wherein he continued: "and all departments, including those using gifts and contracts, should be made fully responsible for charges resulting from the program." And, with this statement, it would further appear that Adams has taken a position that administrators whose personnel actions result in the payment of unemployment compensation to former employees of an institution of higher education be held accountable for their actions.

Accountability for Unemployment Compensation Costs

Institutions of higher education, whether publicly or privately controlled, are in the nature of public trusts and carry inherent obligation for stewardship and accountability.[54] These obligations are vested in a Board of Trustees, Board of Governors or Board of Regents which acts on behalf of the various supporting publics in controlling the direction of the institution. The role of the Board is defined by statute or by charter, wherein its responsibilities toward the public

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[53]Adams, Risk Management and Insurance Guidelines, p. 113.

[54]College and University Business Administration (Rev. ed.; Washington, D.C.: American Council on Education, 1968), p. 141.

it serves are set forth.[55] As such, the ultimate accountability for the conduct of the affairs of an institution of higher education rests with the Board.

Blackwell lists the most important functions of the governing board as:

> 1. The determination and establishment of the fundamental policies of the institutions;
>
> 2. The selection and appointment of a competent administrator, such as the college president, and the delegation to him of powers commensurate with his responsibilities; and
>
> 3. The preservation of the capital assets and financial integrity of the institution.[56]

The primary responsibility of the governing board, as stated in College and University Business Administration,

> . . . is to appoint or terminate the service of the executive officer who is the principal administrator of the institution, usually with the title of "president" or "chancellor". As chief executive officer, he receives from the governing board full responsibility for the administration of all the affairs of the institution. The president, in turn, delegates authority to administrative officers, each responsible for one of the principal areas.[57]

The Board, then, through the appointment of the principal administrator to whom authority is delegated to conduct the affairs of the institution, holds that administrator accountable for the manner in which those affairs are carried out. The principal administrator,

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[55] Adams, op. cit., p. 10.

[56] Thomas Edward Blackwell, College Law, A Guide for Administrators (Washington, D.C.: American Council on Education, 1961), pp. 48-49.

[57] College and University Business Administration, op. cit., p. 4.

likewise, through the delegation of authority to his subordinates, holds them accountable for the manner in which their specific areas of responsibility are carried out, and so forth to the lowest level of the organization structure. But while an administrator may delegate to a subordinate authority to accomplish a task or perform his duties, and the subordinate, in turn, may delegate a portion of the authority received, neither delegates any of his responsibility.[58] Accountability for the conduct of a subordinate's duties, like responsibility, cannot be reduced or avoided through the delegation of authority. Herein lies the need for managerial control in the administration of an institution of higher education with regard to action which may result in the payment of unemployment compensation. As the Board, its appointed administrators and their subordinates each retain accountability for costs attributable to unemployment compensation coverage, it is incumbent upon them to effect controls to assure that these costs be held to a minimum.

As noted previously, control seeks to compel events to conform to plans.[59] The control process involves establishing standards, measuring performance against these standards, and correcting deviations from standards and plans.[60] With regard to the payment of unemployment compensation, the standards and plans, inasmuch as unemployment compensation is a nonproductive cost,[61] must be structured to the

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[58] Koontz and O'Donnel, op. cit., p. 66. [59] See p. 61.

[60] Koontz and O'Donnel, op. cit., p. 640.

[61] Keller, op. cit., p. 28, refers to unemployment compensation as "your nonworking payroll."

establishment of personnel practices to minimize their incidence and financial impact. In the preceding section, programs and recommendations addressed to these ends were reviewed. The measurement of performance against such standards and plans can readily be effected through an analysis of claims filed, benefits awarded, duration of benefit periods, and so forth. The problem, then, becomes one of correcting deviations from standards and plans. This stage of the control process, Etzioni states, requires that deliberate efforts be made to reward those who conform to the standards and plans and to penalize those who do not.[62] Such rewards and punishments may be financial or nonfinancial, and may be effectuated through budgetary or nonbudgetary controls.[63] Again, turning to unemployment compensation, the question posed by this study is: Can costs resulting from coverage under this program be held to a minimum, i.e., minimized through nonbudgetary controls? The ten enumerated points advocated by Fortino[64] all fall into this category. If they are to work

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[62] Amitai Etzioni, Modern Organizations (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1964), pp. 58-59.

[63] Financial and nonfinancial incentives may be personal as in the form of salary or other remunerative adjustments, as an example of the former, or in the form of assignment to a position of greater or lesser prestige, working conditions or hours, as examples of the latter. Similarly, financial incentives may be impersonal as in the form of an adjustment in departmental allocations, and nonfinancial incentives may be impersonal as in differential treatment of departments in committee assignments, space allocation and so forth. Within this study, concern is on impersonal incentives, i.e., those affecting a department rather than an individual. Admittedly, the overlap is great, inasmuch as an administrator may expect to be evaluated and rewarded or punished on the basis of the performance of his department.

[64] See pp. 66-67.

effectively to stabilize employment and preclude the payment of benefits to those no longer in the employ of the institution, the need for cooperation throughout the organization structure, both vertically and horizontally, i.e., both up and down the chain of command and across departmental lines, is essential. Examples of personnel action which may result in the payment of benefits and which might be avoided with interdepartmental cooperation are included in Appendix B. The alternative question posed by this study is: Are budgetary controls, in the view of chief fiscal officers of Michigan institutions of higher education, more effective, desirable and feasible, both from an operational and philosophical point of view, in holding these costs to a minimum? The question may be somewhat rephrased as: Can unemployment compensation costs be held to a minimum without budgetary sanctions, i.e., distribution of incurred costs to the level of administrative responsibility at which personnel actions resulting in their occurrence is initiated? The design of the study, in which the opinions of the chief fiscal officers are sought, follows in Chapter IV.

CHAPTER IV

DESIGN OF THE STUDY

Introduction

In Chapter I, it was made explicit that the purpose of this study is to investigate the opinions and experience of financial administrators of Michigan institutions of higher education with respect to accountability in the administration of unemployment compensation. It was also made explicit that the study would be limited to public four-year colleges and universities and nonpublic colleges recognized by the Michigan Department of Education for listing in the 1972-73 Directory of Institutions of Higher Education,[1] and whose fall term, 1971, enrollments were listed as greater than 500. Using these criteria, all 13 public four-year colleges and universities and 27 of the 49 nonpublic colleges listed in the Directory were selected for inclusion in the study.[2]

Although only 55.1 percent of the nonpublic colleges were selected, enrollment at these institutions accounted for 91.6 percent of the total nonpublic college enrollment. The institutions selected accounted for 98.3 percent of the combined total public and nonpublic student enrollment in Michigan.

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[1] 1972-73 Directory of Institutions of Higher Education (Lansing, Michigan: Michigan Department of Education, 1973).

[2] See Appendix A for a summary of the institutions selected.

The data sought were obtained through use of questionnaires. Follow-up interviews were held with 15 of the respondents to clarify incomplete and seemingly inconsistent answers and to obtain a more in-depth understanding of the respondents' views.

The Questionnaires

There are substantive differences in the methods of funding unemployment compensation allowable under the provisions of the Michigan Employment Security Act with respect to public and private nonprofit institutions of higher education.[3] Additionally, there are technical differences in their accounting structures and differences in terminology used in relation thereto. Accordingly, different questionnaires were constructed to survey the experience and opinions of the chief business officers of public as opposed to private nonprofit institutions.[4] All but three (questions three, four and five) of the ten questions, however, were common to both questionnaires.

The first five questions of both questionnaires were designed toward an understanding of the organizational and accounting structure within which unemployment compensation is administered at each institution. The first two questions, common to both questionnaires, seek to learn where within the organizational structure responsibility for the program has been placed. Questions three, four and five addressed to the public institutions elicit responses with regard to the budgetary and accounting treatment of expenditures attendant to the

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[3]See Chapter III, Methods of Funding.

[4]See Appendix C for the complete questionnaire.

program. Questions three and four addressed to the private nonprofit institutions are similarly directed. Question five of the questionnaire for private institutions relates to the optional funding treatment accorded these institutions under the provisions of the Act.

Whereas the first five questions may be regarded as factual questions, the second five (six through ten) may be regarded as opinion questions. Question six seeks to learn whether, in the view of the chief business officers responding, expenditures, i.e., contributions or reimbursements to the Michigan Employment Security Commission, can be controlled without budgetary sanctions. If in their view they can, the question is asked as to whether budgetary controls would: (a) add to the effectiveness of nonbudgetary controls, (b) be of questionable or little value in addition to nonbudgetary controls, or (c) be difficult to administer and may have a negative impact on the effectiveness of nonbudgetary controls. This question is the essence of the accountability issue posed by this study.

Questions seven, eight and nine seek to learn whether or not the fears of the chief business officers with regard to the budgetary impact of this coverage materialized during the first two years of coverage, whether or not these expenditures constituted a significant cost burden during the same period, and whether or not in their judgment these expenditures will be a significant factor to reckon with in future years.

In the period preceding the effective date of unemployment compensation coverage for institutions of higher education, business officers voiced concern that this coverage would impose an added cost burden on their institutions without any apparent benefit. Question ten, the last question, was included (1) to elicit any favorable response or beneficial attributes concomitant with this coverage, from an institutional perspective, which may subsequently have come to light; and (2) to learn whether specific nonbudgetary controls have been in effect or developed in response to demands imposed by this coverage.

Inasmuch as the survey population was limited to the chief business officers of 40 institutions of higher education in Michigan, a pilot or test study utilizing others was not possible. Consideration of a pilot or test study within the survey group was set aside in the belief that (1) those responding to the pilot study might be less likely to respond to a second inquiry, i.e., the final survey questionnaire; and (2) those responding to both the pilot and the final survey questionnaire might be influenced by changes reflected in the latter instrument.

The decision not to conduct a pilot study was also influenced by the fact that the investigator has been charged with the development and administration of the program at Michigan State University since its inception and has been actively involved in programs for the interpretation and dissemination of information relating to this coverage to other institutions of higher education since early 1971. Additionally, those to whom the questionnaires were addressed were presumed to be knowledgeable about the program. Concern over the decision not to conduct a pilot study, therefore, was limited more to possible lack of clarity or ambiguity of the questions asked rather than to an understanding of their implications, applicability or to technical flaws. In response to this concern, the questionnaires were submitted to five associates at Michigan State University who possess adequate familiarity with the program to serve as a test panel. In their view, the questions were clear, concise and straightforward.

Distribution of the Questionnaires

The questionnaires were mailed during the first week of May, 1974, personally addressed to the 40 chief business officers in the survey group, and under cover of a personalized letter (see Appendix C). Recognizing that in all cases the chief business officer may not choose to personally complete the questionnaire, a space was provided thereon for the name of the person completing the form. An assumption is made, in such cases, that the views of those completing the questionnaire are reflective of their chief business officers. For identification purposes and follow-up, the name of the institution to which each questionnaire was sent was typed plainly thereon prior to mailing.

Interviews With Respondents

Fifteen of the respondents were interviewed by telephone following return of all questionnaires. The purpose of the interviews was threefold: (1) to obtain answers to questions left blank or an understanding of the reason therefor, (2) to clarify seemingly inconsistent answers, and (3) to obtain additional information about methods of funding and control at variance with a general trend or which may appear to have unique aspects. Accordingly, these interviews could not be scheduled prior to the return of the questionnaires and selection of those to be interviewed was left to chance.

Summary

This study proposes to find out how unemployment compensation is being administered within Michigan institutions of higher education; whether or not it is of sufficient concern to chief business officers to warrant and justify the development and implementation of models which establish accountability at the departmental level with budgetary controls; whether such controls are viewed as necessary, advantageous or detrimental; and whether or not coverage has brought in some beneficial changes from an institutional perspective. The answers to these questions are to be found in the responses contained in two separate questionnaires, one sent to chief business officers of 13 public institutions and the other to chief business officers of 27 private institutions.

CHAPTER V

THE ANALYSIS OF RESULTS

Introduction

To recapitulate briefly, this chapter will describe the results of the questionnaires and interviews which were designed to elicit information about: (1) the organizational structure within which unemployment compensation is administered in Michigan institutions of higher education, (2) the opinions of chief business officers with regard to accountability for expenditures related thereto, (3) the significance of these expenditures, and (4) the changes in employment practices which are attributable to this coverage.

The questionnaires were sent to 40 chief business officers of Michigan institutions of higher education, 13 in the public sector and 27 in the private sector. Although different questionnaires were sent to those in the public as opposed to the private sector, seven of the ten questions contained in each were common to both questionnaires. Only questions three, four and five differed, these being structured toward different treatment accorded under the Act and the differences in accounting structure utilized by public and private institutions.

Additionally, follow-up interviews were conducted with 15 of the respondents to elicit either a clarification or greater understanding of their responses. Information and opinions obtained in the interviews is interspersed with the commentary relating to each question.

Analytic Design

As indicated previously in Chapter IV, the survey group contained 13 public and 27 private institutions of higher education. Differences in treatment under the applicable law have been described. Other differences may exist which are not readily apparent. Accordingly, the results have been tabulated by public institutions and private institutions.

Size may also make a difference. Therefore, the institutions have been classified within four size groupings: those with enrollments of 500-1,000, those with enrollments of 1,001-3,000, those with enrollments of 3,001-10,000 and those with enrollments of greater than 10,000. The distribution of the respondents therein is 9, 16, 9 and 6, respectively. There are no public institutions with enrollments of less than 1,000 nor are there any private institutions with enrollments of greater than 10,000. The distribution of institutions by enrollment according to this classification structure is illustrated in Table 1.

Questionnaire Returns

The questionnaires were mailed May 3, 1974. Within two weeks, a 60 percent return had been realized; within four weeks a 75 percent return; within six weeks a 90 percent return and in just over eight weeks a 100 percent return.

Table 1.--Summary of the number of questionnaires sent and returned.[a]

Enrollment Fall Term 1971	Public Institutions	Private Institutions	Totals
500- 1,000	...	9	9
1,001- 3,000	2	14	16
3,001-10,000	5	4[b]	9
Greater than 10,000	6	...	6
Totals	13	27	40

[a]Responses were received from all 40 chief business officers to whom the questionnaires were sent, a 100 percent return.

[b]General Motors Institute was found to be owned and supported by General Motors Corporation and not operated as a nonprofit organization. Subsequent tables do not include data from the questionnaire returned therefrom.

Twenty-six of the 40 questionnaires (65 percent) were signed by the chief business officer to whom the questionnaire was mailed, 4 in the public sector (30.8 percent) and 22 in the private sector (81.5 percent). Thirteen of the questionnaires (32.5 percent), nine in the public sector (69.2 percent) and four in the private sector (14.8 percent), were signed by someone other than the person to whom the questionnaire was addressed. One questionnaire in the private sector (3.7 percent) was not signed. The greater incidence of such delegation in the public as opposed to the private sector is probably reflective of the more complex organizational structure of those institutions which for the most part are larger than the private institutions.

In conversation with the Resident Comptroller of General Motors Institute, it was discovered that GMI is owned and supported by General Motors Corporation. As such, it is not operated as a non-profit organization and has been subject to the provisions of the Michigan Employment Security Act for many years. Accordingly, data relating to GMI are not included in the findings which follow.

Analysis of the Questionnaires

Responses to each of the questionnaire items are presented in tabular form in this chapter. In the design of the questionnaire, however, several of the questions were arranged in a definite sequence to elicit responses toward a progressively greater understanding of some aspect of the study. In the analysis which follows, therefore, responses to these questions are reviewed together.

Questions One and Two

These questions taken together are a straightforward attempt to learn where within the organizational structure of each institution responsibility for the internal administration of unemployment compensation has been placed. Question one is directed to an identification of the executive or administrative officer charged with this responsibility. Question two is directed to an identification of the functional placement within that line of authority.

Question one asked, "Within the organizational structure of your institution, where does the primary responsibility for the internal administration of unemployment compensation fall?" Table 2 summarizes the responses.

All but five of the respondents indicated that this responsibility falls upon the chief business and/or financial officer. Of these five, four are in the public sector. They indicated that primary responsibility for the internal administration of unemployment compensation falls upon: (1) the personnel officer, (2) an assistant president for administration, (3) a vice-president for administration, and (4) a vice-president for university relations. In each case, to the second question, which asked, "To what specific office is authority delegated?" they indicated "Personnel," a function generally considered a responsibility of the chief business and/or financial officer.

The single private institution wherein another line of authortiy was indicated does not have a separate corporate officer for business and/or finance, all authority being delegated to an academic

Table 2.--Summary of Question 1: "Within the organizational structure of your institution, where does the primary responsibility for the internal administration of unemployment compensation fall?"

Student Enrollment Fall Term 1971	Public Institutions				Private Institutions				Totals			
	Office of the President	Office of the Chief Business and/or Financial Officer	Office of the Chief Academic Officer	Other	Office of the President	Office of the Chief Business and/or Financial Officer	Office of the Chief Academic Officer	Other	Office of the President	Office of the Chief Business and/or Financial Officer	Office of the Chief Academic Officer	Other
500- 1,000	..	..	..	..	..	9	..	..	..	9	..	..
1,001- 3,000	..	2	..	..	..	13	..	1[c]	..	15	..	1
3,001-10,000	..	3	..	2[a]	..	3	..	..	..	6	..	2
Greater than 10,000	..	4	..	2[b]	..	..	..	..	..	4	..	2
Totals	..	9	..	4	..	25	..	1	..	34	..	5

[a]Personnel; Assistant President for Administration.

[b]Vice-President for Administration; Vice-President for University Relations.

[c]Executive Vice-President.

dean and an executive vice-president, with responsibility for the administration of unemployment compensation being with the latter.

Question two, as noted above, asked, "To what specific office is authority delegated?" The responses are summarized in Table 3. Nineteen (48.7 percent) of all respondents indicated "Personnel," six (15.4 percent) "Payroll," five (12.8 percent) "Employee or Staff Benefits," three (7.7 percent) "Comptroller," and nine (23.1 percent) "Business Office (General)."[1] Note that only one public and two private institutions place this responsibility directly under the comptroller, although six others, one public and five private, place it under payroll--a probable function of the comptroller's office.

The terminology used to describe the organizational structure of institutions of higher education, as well as the organizational structure itself, varies considerably especially with the wide range of enrollment encompassed by this study (610 to 43,888). Generalizations, therefore, must be made with extreme caution. It is apparent, however, that responsibility for the internal administration of unemployment compensation is generally a responsibility of the chief business and/or financial officer. Furthermore, where authority to administer the program is delegated to a functional unit, it is generally delegated to either personnel (63.3 percent), payroll (20.0 percent) or employee or staff benefits (16.6 percent), functions which have considerable overlap. Only 10 percent of these institutions

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[1]Three respondents checked multiple answers so that the total response to this question is 107.7 percent.

Table 3.--Summary of Question 2: "To what specific office is authority delegated?"

Student Enrollment Fall Term 1971	Public Institutions					Private Institutions					Totals				
	Employee or Staff Benefits	Payroll	Personnel	Comptroller	Business Office (General)	Employee or Staff Benefits	Payroll	Personnel	Comptroller	Business Office (General)	Employee or Staff Benefits	Payroll	Personnel	Comptroller	Business Office (General)
500-1,000	..	..	..	..	..	1	1	2	..	5	1	1	2	..	5
1,001- 3,000	..	1	1	..	..	1	4[c]	6[c]	2	3	1	5	7	2	3
3,001-10,000	1[a]	..	5[a]	..	..	1	..	1	..	1	2	..	6	..	1
Greater than 10,000	1[b]	..	4	1	..	..	..	..	..	..	1	..	4	1	..
Totals	2	1	10	1	..	3	5	9	2	9	5	6	19	3	9

[a]One respondent indicated both Employee or Staff Benefits and Personnel.

[b]Noted "Part of Personnel."

[c]Two respondents indicated both Payroll and Personnel: one as a single department; one as a joint, cooperative responsibility.

indicated that authority was delegated to the comptroller's office, the office primarily concerned with the control function.

Questions Three, Four and Five--Public Institutions

These questions taken in sequence are structured to elicit information about the accounting treatment accorded to expenditures for unemployment compensation. While each question provides insight into a specific aspect of the accounting structure, viewed together they provide a far more comprehensive understanding.

To question three, "Has an expenditure account been established in the General Fund for unemployment compensation?" which is summarized in Table 4, ten of the respondents indicated "yes." Of these, three indicated such an account has been established in the functional classification "Business Operations" and seven in "Retirement and Other Fringe Benefits."[2] Therefore, 53.8 percent of the public institutions treat this expenditure for budgetary purposes as a fringe benefit. Note that of the ten institutions which have established an expenditure account in the General Fund for unemployment compensation, only one of these institutions charges all reimbursements to the

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[2]The Manual for Uniform Financial Reporting, State of Michigan Colleges and Universities (revised June 27, 1969), stipulates that expenditures of the General Fund are to be recorded in functional and object classifications: (1) Instruction and departmental research; (2) Other educational services; (3) Libraries; (4) Organized research; (5) Extension and off-campus education; (6) Student services; (7) Student aid; (8) Public services; (9) General administration; (10) Business operations; (11) Operation and maintenance of plant; and (12) Plant improvement and extension (p. 11). For budgetary purposes, these institutions utilize an additional classification, Retirement and Other Fringe Benefits, which is reallocated to the prescribed functional classifications.

Table 4.--Summary of Question 3--public institutions: "Has an expenditure account been established in the General Fund for unemployment compensation?"

Student Enrollment Fall Term 1971	(A) Yes	(1) In what functional classification?				(2) Are all claims, i.e., reimbursements to the Michigan Employment Security Commission, charged to this account?							(3) Are administrative expenses charged to this account?	
		Business Operations	Operations & Maintenance of Plant	Retirement and Other Fringe Benefits	Other	(a) Yes	(b) No, only those claims attributable to operations of the:	General Fund	Designated Fund	Expendable Restricted Fund	Agency Fund	Other	(a) Yes	(b) No
1,001- 3,000	1	..	..	1	..	..	1	1	..	1	..	..	..	1
3,001-10,000	3	1	..	2	..	..	3	3	..	..	..	..	..	3
Greater than 10,000	6	2	..	4	..	1	5	5	1	1	..	1[a]	1[b]	5[c]
Totals	10	3	..	7	..	1	9	9	1	2	..	1	1	9

Table 4.--Continued.

Student Enrollment Fall Term 1971	(B) No	(1) Expenditures (Reimbursements to the Michigan Employment Security Commission) are charged to: Departmental accounts from which claimants were paid	An account within the department or division in which claimants were employed	A clearing account operating as a "pool" to which departmental contributions have been credited	Other	(2) Were departmental allocations increased in consideration of such expenditures? (a) Yes	(b) No	(3) If charges are made to a clearing account operating as a "pool," were departmental accounts assessed on: A uniform percentage of payroll?	An experience-rated formula?	Other basis?
1,001- 3,000	1	..	1	..	..	1	..	..	..	..
3,001-10,000	2	..	..	2	1[d]	1	1	2	..	1[d]
Greater than 10,000	..	..	..	..	..	..	..	..	..	..
Totals	3	..	1	2	1	2	1	2	..	1

[a]"If monies were not available from other sources (i.e., expendable restricted account), the General Fund would be charged. Has not happened to date."

[b]"Proportionate share attributable to General Fund operations only."

[c]One respondent indicated "except small outside service consulting fee."

[d]"10 percent of claim costs are charged directly to the departments for whom the claimants worked."

Michigan Employment Security Commission to this account without regard to the fund from which claimants had been paid. This, in effect, treats expenditures for unemployment compensation as institutional overhead.

One institution also charges reimbursements to the Commission attributable to operations in the Expendable Restricted Fund[3] to this account. One other institution charges reimbursements to the Commission attributable to operations in both the Expendable Restricted Fund and the Designated Fund[4] to the General Fund expenditure account.

Only one of these institutions also charges a proportionate share of administrative expenses to a General Fund expenditure account, the others apparently absorbing such costs within the department charged with administration of the program. It is noteworthy that this institution is the only one which has established a separate office to handle unemployment compensation, a factor which makes identification of administrative expenses feasible and probably accounts for its unique position among the public institutions in this regard.

One of the remaining institutions which have not established an expenditure account in the General Fund charges all reimbursements

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[3]The Expendable Restricted Fund, as defined in the Manual for Uniform Financial Reporting, "is to be maintained to account for all special programs financed by separate special-purpose state appropriations, income from endowment funds, federal contracts and grants, and other gifts and grants. In all cases, the use of the funds is restricted for specific purposes stated by the supporting agencies or donors except for the balance retained for working capital (p. 12).

[4]The Designated Fund, according to the Manual for Uniform Financial Reporting, "is to be maintained to account for funds for specific purposes which are not restricted by donors or supporting agencies" (p. 12).

attributable to General Fund operations to an account within the department or division in which claimants were employed. The other two institutions charge reimbursements to a clearing account to which departmental contributions, assessed on a uniform percentage of payroll, have been credited. One of these institutions also charges 10 percent of all claim costs directly to the departments for which the claimants worked.

Question four is directed to the accounting treatment accorded unemployment compensation attributable to operations of the Designated Fund and question five, in essence, all other funds.

Question four, which is summarized in Table 5, asked, "Are reimbursements to the Commission attributable to operations in the Designated Fund distributed as a direct charge to the account from which the claimant had been paid?" Seven (53.8 percent) of the respondents indicated that they were.

Of the six that indicated these reimbursements are charged elsewhere, two previously indicated in response to question three that they are charged to the General Fund expenditure account, one to an account within the department or division in which claimants were employed, and two to a clearing account operating as a "pool" to which departmental contributions assessed on a uniform percentage of payroll have been credited. One of the latter again indicated that 10 percent of claim costs are charged directly to the departments for which claimants worked. The answers given by these five respondents are consistent with those given to question three. In the only variation, one respondent indicated that reimbursements attributable to operations

Table 5.--Summary of Question 4--public institutions: "Are reimbursements to the Commission attributable to operations in the Designated Fund distributed as a direct charge to the account from which the claimant had been paid?"

Student Enrollment Fall Term 1971	(A) Yes	(B) No	(1) Where are they charged?				(2) If charges are made to a clearing account operating as a "pool," were departmental accounts assessed on:		
			To the General Fund Expenditure account	To an account within the department or division in which claimants were employed	To a clearing account operating as a "pool" to which departmental contributions have been credited	Other	A uniform percentage of payroll?	An experience-rated formula?	Other basis?
1,001- 3,000	1	1	..	1	..	..	..	..	..
3,001-10,000	3	2	..	..	2	1[a]	2	..	1[a]
Greater than 10,000	3	3	2	..	..	1[b]	..	..	..
Totals	7	6	2	1	2	2	2	..	1

[a]"10 percent of claim costs are charged directly to the departments for whom the claimants worked."

[b]"Charged to indirect cost recovery."

in the Designated Fund are charged to indirect cost recovery, an account which represents recoveries earned by charges to Expendable Fund grants for indirect costs.

Question five asked, "Are reimbursements to the Commission attributable to operations in all other funds (excluding the General Fund) treated in the same manner as the Designated Fund?" Four respondents indicated six exceptions. Their responses are summarized in Table 6.

Questions three, four and five, then, indicate that of the 13 public institutions, 10 have established an expenditure account in the General Fund to which all reimbursements to the Commission attributable to General Fund operations are charged. Of these ten, however, only one charges reimbursements to the Commission to this account without regard to the fund to which they are attributable.

Three other institutions accord uniform accounting treatment to all reimbursements to the Commission, one charging an account within the department or division in which claimants were employed and two to a clearing account operating as a "pool" to which departmental contributions, assessed on a uniform percentage of payroll, have been credited.

Of the nine institutions which, within their internal accounting structure, accord different accounting treatment to reimbursements to the Commission attributable to different funds, five charge the accounts from which claimants had been paid for all but the General Fund. The remaining four accord different accounting treatment to reimbursements to the Commission attributable to operations of two or

Table 6.--Summary of Question 5.--public institutions: "Are reimbursements to the Commission attributable to operations in all other funds (excluding the General Fund) treated in the same manner as the Designated Fund?"

Student Enrollment Fall Term 1971	(A) Yes	(B) No	(1) Which funds are accorded different treatment? Expendable Restricted Fund	Auxiliary Activities Fund	Agency Fund	Other
1,001- 3,000	1	1	1[a]	1[c]	..	..
3,001-10,000	5	..	..	..		
Greater than 10,000	3	3	1[b]	2[d]	1[e]	..
Totals	9	4	2	3	1	..

(2) Please explain how these are handled:

[a]Charged to the General Fund expenditures account.

[b]Charged to a clearing account operating as a "pool," to which contributions, assessed on a uniform percentage of payroll, have been assessed.

[c]Allocated percentage-wise at a predetermined rate of general administrative overhead.

[d]Charged direct to activity accounts; budgeted amounts are expensed to principal operating accounts and transferred to the General Ledger Auxiliary Fund "Unemployment Compensation Reserve" from which disbursements are made.

[e]Charged direct to activity accounts.

more different funds. A summary of the accounting treatment indicated in the responses to questions three, four and five appears in Table 7.

Questions Three and Four--
Private Institutions

These two questions are structured to elicit information about the accounting treatment accorded expenditures for unemployment compensation by the private institutions. They parallel questions three, four and five addressed to the public institutions.

Question three asked, "Has an expenditure account been established in the Current Fund for unemployment compensation?" As indicated in Table 8, 22 of the respondents (84.6 percent) replied affirmatively. Of these, ten (45.4 percent) indicated the account had been established in the functional classification "Staff Benefits" (38.5 percent of all private institutions), eight (36.4 percent) in "General Administration," four (18.2 percent) in "General Institutional," and one (4.5 percent) in "Operation and Maintenance of Plant."[5] Considerably less than half (38.5 percent) of the private institutions, therefore, treat this expenditure for budgetary purposes as a fringe benefit whereas slightly more than half (53.8 percent) of the public institutions do so.[6]

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[5]One respondent checked both "General Administration" and "General Institutional" so that the total response to this question is 104.5 percent.

[6]The functional classifications utilized by the private institutions as prescribed by College and University Business Administration (Rev. ed.; Washington, D.C.: American Council on Education, 1968) differ somewhat from those used by the public colleges and universities in Michigan. College and University Business Administration prescribes 12 functional classifications within the Current Fund: Educational and General. Those prescribed are: (1) Instruction and Departmental

Table 7.--Summary of the accounts to which reimbursements are charged by the 13 public institutions.

Funds From Which Claimants Had Been Paid	Account Charged (Number of Institutions)					
	A General Fund Expenditure Account	Account from which the claimant had been paid	Indirect Cost Recovery	A Clearing Account operating as a "pool" to which departmental contributions have been credited	To an Account within the department or division in which claimants were employed	Other
General Fund	10	..	..	2	1	..
Designated Fund	2	7	1	2	1	..
Expendable Restricted Fund	3	5	1	3	1	..
Auxiliary Activities Fund	1	7	..	2	1	2[a]
Agency Fund	2	8	..	2	1	..

[a]Allocated percentage-wise at a predetermined rate of general administrative overhead; charged to a reserve account to which budget amounts have been transferred from principal operating accounts.

Table 8.--Summary of Question 3--private institutions: "Has an expenditure account been established in the Current Fund for unemployment compensation?"

Student Enrollment Fall Term 1971	(A) Yes											
		(1) In what functional classification?				(2) Are all contributions or reimbursements to the Michigan Employment Security Commission charged to this account?					(3) Are administrative expenses charged to this account?	
						(a) Yes	(b) No, only those expenditures attributable to operations of the Current Fund				(a) Yes	(b) No
		Operation & Maintenance of Plant	General Administration	Staff Benefits	General Institutional			Auxiliary Activities	Educational & General	Service Departments		
500- 1,000	7	1	2	4	..	6	1	1	1	..	3	4
1,001- 3,000	12	..	5[a]	4	4[a]	10	2[b]	2	2	1	4	8
3,001-10,000	3	..	1	2	..	3	..	..	..	..	1	2
Totals	22	1	8	10	4	19	3	3	3	1	8	14

Table 8.--Continued.

Student Enrollment Fall Term 1971	(B) No	(1) Expenditures (Contributions or reimbursements to the Michigan Employment Security Commission) are charged to: Departmental salary and wages accounts	Departmental or divisional accounts other than salary and wages accounts	A clearing account operating as a "pool" to which departmental contributions have been credited	Miscellaneous expense	(2) Were departmental allocations increased in consideration of such expenditures? (a) Yes	(b) No	(3) If charges are made to a clearing account operating as a "pool," were departmental accounts assessed on: A uniform percentage of payroll	An experience-rated formula	Other basis
500- 1,000	2	1	..	..	1	..	2	..	..	..
1,001- 3,000	2	1	1	..	..	1	1	..	..	..
3,001-10,000	..	..	..	..	..	..	..	..	..	..
Totals	4	2	1	..	1	1	3	..	..	..

[a]One respondent indicated both General Administration and General Institutional.

[b]One respondent indicated all three categories. Commercial enterprises are charged directly.

Nineteen of those responding affirmatively indicated that all contributions or reimbursements to the Commission are charged to the expenditure account established in the Current Fund, only two indicating differential treatment to service departments and one to commercial enterprises.

Four respondents indicated an expenditure account for unemployment compensation had not been established in the Current Fund. Two of these stated that such expenditures are charged to departmental salary and wage accounts, one to departmental or divisional accounts other than salary and wages accounts, and one to "Miscellaneous Expense." In only one instance were departmental allocations increased in consideration of such expenditures. The responses to this question are summarized in Table 8.

In response to question four, "Are contributions or reimbursements to the Commission attributable to operations in all other funds treated in the same manner as the Current Fund?" summarized in Table 9, 21 responded affirmatively and the remaining 5 indicated that they do not have payroll in other funds.

Thus, while 9 of the 13 public institutions accord a different treatment in different funds to expenditures for unemployment

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Research, (2) Organized Activities Related to Educational Departments, (3) Sponsored Research, (4) Other Separately Budgeted Research, (5) Other Sponsored Programs, (6) Extension and Public Service, (7) Libraries, (8) Student Services, (9) Operation and Maintenance of Physical Plant, (10) General Administration, (11) Staff Benefits, and (12) General Institutional Expense (pp. 234-235). Note that College and University Business Administration classifies staff benefits as a function whereas the Manual for Uniform Financial Reporting, through omission of any mention of such, prescribes that such expenditures be charged to other functional categories.

Table 9.--Summary of Question 4--private institutions: "Are contributions or reimbursements to the Commission attributable to operations in all other funds treated in the same manner as the Current Fund?"

Student Enrollment Fall Term 1971	(A) Yes	(B) No	Please explain how these are handled:
500- 1,000	6	..	Five respondents, three in the 500-1,000 classification and one each in the 1,001-3,000 and 3,001-10,000 classifications, indicated that they do not have payroll in other funds.
1,001- 3,000	13	..	
3,001-10,000	2	..	
Totals	21	..	

compensation, the private institutions all treat such expenditures in a uniform manner regardless of fund. Inasmuch as transactions of the General Fund, Designated Fund, Expendable Restricted Fund and Auxiliary Activities Fund used by the public institutions are all processed within the Current Fund used by the private institutions, this difference is probably more reflective of a general difference in accounting philosophy between the two sectors than to a difference specifically applied to the accounting treatment of expenditures for unemployment compensation.

Question Five--Private Institutions

Designed to learn whether or not the private institutions exercised the funding option available to them under the nonprofit organization provisions of the Act, this question asked, "Did your institution elect to reimburse the Michigan Employment Security Commission for benefits paid attributable to your status as a covered employer in lieu of contributions?" The responses are summarized in Table 10.

Twenty-four (92.3 percent) of the 26 institutions responded that they had elected the optional method of funding. Although 22 of these institutions made the election effective January 1, 1972, and therefore could have terminated the election effective January 1, 1974, none did so nor did any indicate an intention to do so.

Of the two institutions that did not exercise the option, neither indicated that they would do so on the next possible date.

Table 10.--Summary of Question 5--private institutions: "Did your institution elect to reimburse the Michigan Employment Security Commission for benefits paid attributable to your status as a covered employer in lieu of contributions?"

Student Enrollment Fall Term 1971	(A) Yes	(1) When did the election become effective? January 1, 1972	January 1, 1973	January 1, 1974	(2) Have you terminated the election? (a) Yes	(b) No	(B) No	(1) Do you believe it likely that you will exercise this option effective January 1, 1975? (a) Yes	(b) No
500- 1,000	8	7	1	..	..	8	1	..	1
1,001- 3,000	13	12	..	1	..	13	1	..	1
3,001-10,000	3	3	..	..	..	3	..	..	..
Totals	24	22	1	1	..	24	2	..	2

Question Six

This question sought to learn whether in the opinion of the chief business officers an effective program could be implemented to minimize the incidence and duration of unemployment compensation claims without utilization of budgetary controls. The responses, summarized in Table 11, indicate that 9 (69.2 percent) of the respondents in the public sector and 16 (61.5 percent) of the respondents in the private sector believe they can. Conversely, only four (30.8 percent) in the public sector and nine (34.6 percent)[7] in the private sector believe budgetary controls are essential.

Three respondents in the public sector indicated, however, that budgetary controls would add to the effectiveness of other measures, increasing the number who favor budgetary controls to seven (53.8 percent). In contrast six of the respondents indicated budgetary controls would be either of questionable value, difficult to administer and possibly may have negative overtones.

In the private sector, 6 respondents indicated budgetary controls would add to the effectiveness of other measures, increasing the number who favor such controls to 15 (57.7 percent), whereas 7 felt they would be of questionable value and 3 felt they would be difficult to administer and may have a negative impact.

Note that the opinions at both extremes are dispersed across the public and private institutions in all size groupings. Comments

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[7]One respondent in the private sector stated "not applicable" to this question. The response, therefore, is 96.1 percent.

Table 11.--Summary of Question 6: "Centralized hiring of all personnel; measures to stabilize employment through interdepartmental cooperation in scheduling employees to meet the needs of varying and seasonal workloads; better use of probationary periods; increased utilization of outside contractors; exit interviews with dismissed or terminated employees; and an aggressive centralized follow-up program to find suitable work for former employees who have filed claims have all been mentioned as ways to minimize the incidence and duration of unemployment compensation claims. Do you believe these measures can function effectively without budgetary controls, i.e., distribution of costs incurred to the level of administrative responsibility at which personnel actions giving rise to them took place?"

Student Enrollment Fall Term 1971	Public Institutions				
	(A) Yes	Would budgetary controls:			(B) No
		(1) Add to the effectiveness of these measures?	(2) Be of questionable or little value in addition to these measures?	(3) Be difficult to administer fairly and may have a negative impact on the effectiveness of these measures?	
1,001-3,000	2	..	1	1	..
3,001-10,000	2	1[a]	1[b]	1[b]	3
Greater than 10,000	5	2	..	3	1
Totals	9	3	2	5	4

Table 11.--Continued.

Student Enrollment Fall Term 1971	Private Institutions				
	(A) Yes	Would budgetary controls:			(B) No
		(1) Add to the effectiveness of these measures?	(2) Be of questionable or little value in addition to these measures?	(3) Be difficult to administer fairly and may have a negative impact on the effectiveness of these measures?	
500- 1,000[c]	4	2	1	1	4
1,001- 3,000	9	3[d]	5	1	5
3,001-10,000	3	1	1	1	..
Totals	16	6	7	3	9

Table 11.--Continued.

Student Enrollment Fall Term 1971	Totals				
	(A) Yes	Would budgetary controls:			(B) No
		(1) Add to the effectiveness of these measures?	(2) Be of questionable or little value in addition to these measures?	(3) Be difficult to administer fairly and may have a negative impact on the effectiveness of these measures?	
500- 1,000	4	2	1	1	4
1,001- 3,000	11	3	6	2	5
3,001-10,000	5	2	2	2	3
Greater than 10,000	5	2	..	3	1
Totals	25	9	9	8	13

[a]One respondent who checked this answer also checked 6(B), i.e., "No." The response is not included in this tabulation.

[b]One respondent checked both 6(A)(2) and 6(A)(3).

[c]One respondent stated "not applicable."

[d]One respondent added "for a small institution."

from some representing small institutions, however, indicated that informal relationships obviate the need for formal controls.

Question Seven

"Have expenditures for unemployment compensation during the first two years of coverage been (a) less than anticipated, (b) about as anticipated, (c) greater than anticipated?" Table 12 summarizes the responses to this question.

Of the total responses, only four (10.3 percent) indicated that expenditures were greater than anticipated, one (7.7 percent) in the public sector and three (11.5 percent) in the private sector. Eight (61.5 percent) in the public sector and 11 (42.3 percent) in the private sector indicated that expenditures were less than anticipated.

Question Eight

"In relation to your institution's total operating expenditures were these expenditures (a) of little significance, (b) of moderate significance, or (c) of great significance?" Table 13 summarizes the responses.

Five (38.5 percent) of the respondents from the public sector and 16 (61.5 percent) from the private sector were of the opinion that expenditures during the first two years of coverage were of little significance whereas only one from each sector (7.7 percent and 3.8 percent, respectively) expressed the opinion that they were of great significance. The former, however, indicated this to be true only for housing, expenditures in the General Fund to be of little significance. Eight respondents (61.5 percent) in the public sector as opposed to

Table 12.--Summary of Question 7: "Have expenditures for unemployment compensation during the first two years of coverage been:"

Student Enrollment Fall Term 1971	Public Institutions			Private Institutions			Totals		
	Less than anticipated?	About as anticipated?	Greater than anticipated?	Less than anticipated?	About as anticipated?	Greater than anticipated?	Less than anticipated?	About as anticipated?	Greater than anticipated?
500- 1,000	..	..	..	3	4	2	3	4	2
1,001- 3,000	..	1	1	6	7	1	6	8	2
3,001-10,000	3	2	..	2	1	..	5	3	..
Greater than 10,000	5	1	..	..	..	..	5	1	..
Totals	8	4	1	11	12	3	19	16	4

Table 13.--Summary of Question 8: "In relation to your institution's total operating expenditures, were these expenditures:"

Student Enrollment Fall Tern 1971	Public Institutions: Of little significance?	Public Institutions: Of moderate significance?	Public Institutions: Of great significance?	Private Institutions: Of little significance?	Private Institutions: Of moderate significance?	Private Institutions: Of great significance?	Totals: Of little significance?	Totals: Of moderate significance?	Totals: Of great significance?
500- 1,000	..	..	..	5	4	..	5	4	..
1,001- 3,000	1	1	..	8	5	1	9	6	1
3,001-10,000	3[a]	2	1[a]	3	..	..	6	2	1
Greater than 10,000	1	5	..	..	..	..	1	5	..
Totals	5	8	1	16	9	1	21	17	2

[a]One respondent indicated "Of little significance" for General Fund; "Of great significance" for housing.

nine (34.6 percent) in the private sector were of the opinion that these expenditures were of moderate significance. Note that those in the public sector, who for the most part represent larger institutions, tend to place greater significance on these expenditures than those in the private sector. One respondent from the public sector commented that "As a percentage of total it is insignificant--However, as an additional cost element it eliminates other budget choices we would rather fund."

Question Nine

"In relation to your institution's total operating expenditures, do you anticipate these costs in future years will be: (a) of less significance, (b) of about the same significance, or (c) of greater significance?" The responses are summarized in Table 14.

Note that only four respondents (10.3 percent), all from the private sector, expressed the opinion that those expenditures would be of less significance in future years whereas eight (20.5 percent) of all respondents anticipate these costs will be greater. Again, those in the public sector tend to place greater significance on these expenditures than do those in the private sector. However, 84.6 percent in the public, 65.4 percent in the private and 71.8 percent overall expressed the opinion that these expenditures will be of about the same significance in future years as they have been during the first two years of coverage.

Table 14.--Summary of Question 9: "In relation to your institution's total operating expenditures, do you anticipate these costs in future years will be:"

Student Enrollment Fall Term 1971	Public Institutions			Private Institutions			Totals		
	Of less significance?	Of about the same significance?	Of greater significance?	Of less significance?	Of about the same significance?	Of greater significance?	Of less significance?	Of about the same significance?	Of greater significance?
500- 1,000	..	..	..	2	5	2	2	5	2
1,001- 3,000	..	1	1	2	10	2	2	11	3
3,001-10,000	..	5[a]	1[a]	..	2	1	..	7	2
Greater than 10,000	..	5	1	..	..	..	..	5	1
Totals	..	11	3	4	17	5	4	28	8

[a]One respondent indicated "Of about the same significance" for General Fund; "Of great significance" for housing.

Question Ten

This question was structured to learn, in the opinion of the chief business officer responding, whether employment practices have been modified in view of this coverage and whether some beneficial aspects may now be apparent. The responses are summarized in Table 15.

Eight (61.5 percent) of those responding from the public sector and 12 (46.2 percent) from the private sector were of the opinion that coverage under the Michigan Employment Security Act has resulted in better employment practices at their institutions. Six (46.2 percent) in the public sector and five (19.2 percent) in the private sector felt that coverage has brought about greater interdepartmental cooperation in scheduling employees to meet the needs of varying or seasonal workloads. While only one in the public sector (7.7 percent) felt that coverage helped to eliminate substandard employees through shorter probationary periods or earlier termination of unsatisfactory probationary employees, seven (26.9 percent) in the private sector expressed this opinion.

Seventeen (43.6 percent) of all respondents, 5 (38.5 percent) representing public institutions and 12 (46.2 percent) representing private institutions, expressed the opinion that coverage has given employees a greater sense of security. Five from the public sector (38.5 percent) and seven from the private sector (26.9 percent), however, indicated a shift in employment through increased use of exempt student employees to fill part-time employment needs and four (10.3 percent) of all respondents were of the opinion that coverage has

Table 15.--Summary of Question 10: "In your opinion, has coverage under the Michigan Employment Security Act at your institution (Please check all that apply):"

Student Enrollment Fall Term 1971	Public Institutions					
	Resulted in better employment practices?	Given employees a greater sense of security?	Resulted in a reduction of your workforce, e.g., through use of more outside contractors?	Helped to eliminate substandard employees through shorter probationary periods or earlier termination of unsatisfactory probationary employees?	Brought about greater interdepartmental cooperation in scheduling employees to meet the needs of varying or seasonal workloads?	Increased use of exempt student employees to fill part-time employment needs?
1,001- 3,000	2	2	..	..	1	..
3,001-10,000[a]	2	1	..	..	2	2
Greater than 10,000	4	2	1	1	3	3
Totals	8	5	1	1	6	5

Table 15.--Continued.

Student Enrollment Fall Term 1971	Private Institutions[b]					
	Resulted in better employment practices?	Given employees a greater sense of security?	Resulted in a reduction of your workforce, e.g., through use of more outside contractors?	Helped to eliminate substandard employees through shorter probationary periods or earlier termination of unsatisfactory probationary employees?	Brought about greater interdepartmental cooperation in scheduling employees to meet the needs of varying or seasonal workloads?	Increased use of exempt student employees to fill part-time employment needs?
500- 1,000[c]	4	3	2	3	2	3
1,001- 3,000[d]	7	8[e]	1	4	3	4
3,001-10,000	1	1	..	..	..	..
Totals	12	12	3	7	5	7

Table 15.--Continued.

Student Enrollment Fall Term 1971	Totals					
	Resulted in better employment practices?	Given employees a greater sense of security?	Resulted in a reduction of your workforce, e.g., through use of more outside contractors?	Helped to eliminate substandard employees through shorter probationary periods or earlier termination of unsatisfactory probationary employees?	Brought about greater interdepartmental cooperation in scheduling employees to meet the needs of varying or seasonal workloads?	Increased use of exempt student employees to fill part-time employment needs?
500- 1,000	4	3	2	3	2	3
1,001- 3,000	9	10	1	4	4	4
3,001-10,000	3	2	..	..	2	2
Greater than 10,000	4	2	1	1	3	3
Totals	20	17	4	8	11	12

[a]One respondent did not answer this question.

[b]One respondent in each classification stated that none of these apply.

[c]Two respondents did not answer this question, one of whom stated, "We have paid benefits for only one former employee. Our staff is small."

[d]One respondent did not answer this question.

[e]One respondent qualified answer "somewhat."

resulted in a reduction of their workforce through, for example, the use of more outside contractors.

Summary

From the analysis of the questionnaires and data obtained in the interviews, a number of similarities as well as differences are apparent with regard to the organizational structure within which the internal administration of unemployment compensation is placed and the accounting treatment accorded expenditures therefor. Aside from those which are attributable to differences in treatment under the provisions of the Michigan Employment Security Act or differences in the accounting structure used by public and private institutions of higher education in Michigan, however, neither size nor the public-private distinction appears to be a contributing factor.

The administration of unemployment compensation is a responsibility of the chief business and/or financial officer at all but 5 of the 39 institutions in the study. Of those five, four are large public institutions in which the personnel function has been placed under a different line of authority. The fifth, a small private institution, has no chief business officer per se. Responsibility for these affairs is placed under an executive officer charged with all nonacademic administration.

Where the administration of unemployment compensation is delegated to a functional unit, it is most often to the personnel office. Employee or staff benefits and payroll, functions which are commonly administered at many institutions and which overlap considerably, are the offices to which authority is delegated at all but three of the remaining institutions. At those three institutions, authority has been delegated to the comptroller's office, an office inherently concerned with control.

At the public institutions, a dual system with regard to the accounting treatment of unemployment compensation expenditures predominates. Expenditures attributable to operations of the General Fund are charged to a General Fund expenditure account whereas expenditures attributable to operations of other funds are charged directly to the account from which claimants had been paid. The cost burden resulting from unemployment compensation claims attributable to operations in the General Fund, therefore, are absorbed as an undistributed operating expense of the institution whereas for other funds the burden is passed on to the lowest level of administrative authority reflected in the accounting structure, i.e., the account from which claimants had been paid. Thus, within the context of this study, these administrators are not held accountable for personnel actions resulting in the payment of unemployment compensation to claimants who were paid from the General Fund whereas they are held accountable for such actions resulting in the payment of unemployment compensation to claimants who were paid from other funds.

Four of the public institutions accord uniform accounting treatment to all funds. Their procedures differ significantly, however, providing models at what may be viewed as both extremes of the accountability continuum.

In contrast to the public institutions, the 26 private institutions all accord uniform treatment to expenditures attributable to operations of all funds with only three institutions indicating a different treatment to certain operations within the current fund. All but three of these institutions charge all expenditures for reimbursements or contributions to a Current Fund expenditure account, except as noted above, thereby absorbing such costs as an undistributed institutional expense.

Twenty-four of the private institutions have elected to reimburse the Commission in lieu of paying contributions, with only two opting to pay contributions as provided for in the Act. All 26 appear satisfied with their decision, none indicating an intention to change their method of funding.

Although 13 of the respondents from all institutions expressed the opinion that budgetary controls, i.e., distribution of costs incurrent to the level of administrative responsibility at which personnel actions giving rise to them took place, and nine more indicated that budgetary controls would add to the effectiveness of other measures, only five institutions apply them uniformly to all funds and operations within funds. Eight others, all in the public sector, utilize budgetary controls with regard to one or more fund groups and three others in the private sector apply them to selected operations within the current fund.

Approximately half of all respondents expressed the opinion that expenditures during the first two years of coverage were less than anticipated, all but four of the remainder indicating about as anticipated.

Again, approximately half of the respondents were of the opinion that these expenditures were of little significance in relation to their institution's total operating costs, with all but two of the remainder indicating them to be of moderate significance. Eight of the respondents, however, expressed the opinion that these expenditures will be of greater significance in future years whereas only four indicated that they will be of less significance.

Coverage has, in the opinion of the respondents, been accompanied by some beneficial aspects from an institutional viewpoint. Over half believe that coverage has resulted in better employment practices. Nearly as many are of the opinion that coverage has given employees a greater sense of security with lesser numbers expressing other direct and indirect benefits to their institutions.

CHAPTER VI

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The purpose of this study, as stated in Chapter I, was to investigate the opinions and experience of financial administrators of Michigan institutions of higher education with respect to accountability in the administration of unemployment compensation two years after coverage has been in effect. The underlying thesis was that an effective method can be developed to minimize the incidence and duration of unemployment benefits paid to former employees of Michigan institutions of higher education through an identification of the actions resulting in the payment of benefits and a distribution of costs resulting therefrom to the level of authority at which they were incurred. The general question investigated was: In the opinion of financial administrators, should departmental administrators be held accountable for personnel actions which result in the payment of unemployment benefits? Four underlying premises formed the basis of the study. They were:

1. Sound personnel practices can serve to minimize the incidence and duration of unemployment benefits paid to former employees;

2. Financial incentives, either positive or negative, are a requisite part of any model designed to enlist and assure the cooperation

of those whose personnel actions may lead to the payment of unemployment benefits;

3. The costs of unemployment compensation are of sufficient concern to financial administrators to justify the development of an accountability model whereby costs of unemployment compensation may be distributed to the administrative unit whose actions resulted in the payment of benefits; and

4. That such an accountability model can be developed with definitive, concise criteria.

The population under study consisted of 39 Michigan institutions of higher education with fall term enrollments of greater than 500. Included were all 13 public four-year colleges and universities and 26 nonpublic, nonprofit colleges.

The data sought were obtained through use of questionnaires sent to the chief business and/or financial officers, all of whom responded. A slightly different questionnaire was used for the public institutions than for the private institutions, to take into consideration differences in their accounting structure and with regard to differences in coverage under the Michigan Employment Security Act. Interviews with 15 of the respondents were used to supplement the data obtained from the questionnaires. The data and opinions expressed in the interviews were tabulated by both size and the public-private nature of the institutions in the study. The significance of the findings was related in terms of percentage distributions with the public-private distinction and in total.

In this chapter, the findings presented previously in Chapter V are related specifically to the four premises, conclusions are drawn therefrom with regard to the general question posed in the study, and recommendations are made.

Premise One

> Sound personnel practices can serve to minimize the incidence and duration of unemployment benefits paid to former employees.

In the literature reviewed in Chapter III, a number of recommendations were made toward development of programs to hold the costs of unemployment compensation coverage to a minimum through implementation of modifications in the personnel practices of institutions of higher education. Among these recommendations were that all hiring should be centralized to provide better pre-employment screening. Those responsible for the control of workmen's compensation costs have long recognized the value of pre-employment physical examinations to assure that persons with disabilities are not unknowingly hired and given inappropriate work assignments which may give rise to work-related (compensable) injuries. Similarly, prudence in the control of unemployment compensation costs dictates that caution prevail in the hiring of persons with poor employment histories in order to give reasonable assurance that they may succeed in the work to which they are assigned, thereby reducing the risk of actions which may give rise to termination of employment followed by unemployment compensation claims.

Along the same line, better use of probationary periods was recommended. Nonproducers and less than satisfactory employees should be terminated before they have accumulated sufficient credit weeks upon which to base an unemployment compensation claim. While sound personnel practices may always have dictated that such unsatisfactory or marginal employees be terminated without undue delay, the added costs of unemployment compensation must be taken into consideration in any decision to prolong or extend a probationary period or postpone employee evaluation for continued employment.

Better scheduling of employees to meet the demands of seasonal or peak workloads was also advocated. Both intra- and interdepartmental cooperation to utilize the workforce toward maximum efficiency, which again must always be acknowledged as sound personnel practice, has become even more essential in light of the costs of unemployment compensation. It makes little sense to furlough or terminate a laboratory technician at the conclusion of one grant while hiring someone of comparable skill to work on another; to replace summer groundskeepers with winter snow removal crews where the same persons might have been continuously employed; or to hire clerical help to register incoming students while at the same time releasing persons of similar skills in the admissions office where the peak workload has subsided and who are no longer needed. The added costs of unemployment compensation to those so furloughed or terminated make such practices even less defensible.

In the survey, each of the 39 chief business officers was asked in question ten whether unemployment compensation coverage has, at his or her institution, resulted in better employment practices, helped to eliminate substandard employees through shorter probationary periods or earlier termination of unsatisfactory probationary employees, and/or brought about greater interdepartmental cooperation in scheduling employees to meet the needs of varying or seasonal workloads. It is significant that 20 (over half of those responding to this question) indicated that coverage has resulted in better employment practices generally whereas 8 (approximately one-fifth) and 11 (approximately one-third) indicated the latter two effects, respectively.

The question also asked whether unemployment coverage has resulted in a reduction of workforce, e.g., through use of more outside contractors and/or increased use of exempt student employees to fill part-time employment needs. As the former transfers potential liability for unemployment compensation to others and the latter carries no potential liability, they are, from an unemployment compensation control perspective, sound personnel practices. While only four of the respondents indicated a reduction of their workforces through use of more outside contractors, again it is significant that 12 indicated greater use of exempt student employees.

The sixth question, although addressed primarily to the issue of budgetary controls, asked whether such personnel practices can function effectively to minimize the incidence and duration of unemployment compensation claims. Twenty-five of the financial administrators (64.1 percent) expressed the opinion that these measures can function effectively independently of other (budgetary) controls.

In the opinion of a majority of the chief business officers, then, sound personnel practices can serve to minimize the incidence and duration of unemployment benefits paid to former employees.

Premise Two

> Financial incentives, either positive or negative, are a requisite part of any model designed to enlist and assure the cooperation of those whose personnel actions may lead to the payment of unemployment benefits.

Within the organizational structure of institutions of higher education there is a great deal of variation with regard to the authority delegated through the chain of command to carry out the decision-making process as it relates to personnel actions. At one of the smallest institutions in the study, all hiring and personnel-related actions are handled by either the academic dean or the executive vice-president. In other larger institutions authority for these matters is delegated to the principal administrative units and sub-units thereof. Thus, in the former, sound personnel policies, be they either formal policies of the institutions or simply following the tenets of administrative practice, can be centrally administered and controlled. In the latter, however, while there may be a formal centralized structure for processing employment-related actions and a formal body of policy to which such actions must adhere, discretionary actions at the departmental or supervisory level as to who shall be employed, promoted, transferred or terminated weaken the control by central administration. Cooperation, as well as compliance, with policies and guidelines promulgated by central administration is essential to preclude unnecessary and avoidable costs resulting from coverage under this program.

One-third of all respondents in the survey expressed the opinion that financial incentives were necessary to assure such cooperation. Nearly one-fourth expressed the opinion that they would add to the effectiveness of nonbudgetary controls whereas only slightly more than one-fifth expressed an opinion in opposition to financial incentives. Thus, while it cannot be concluded that the chief business officers of Michigan institutions of higher education believe that financial incentives are a requisite part of any model designed to enlist and assure the cooperation of those whose personnel actions may lead to the payment of unemployment benefits, more than half (56.4 percent) expressed an opinion favorable to such.

Premise Three

> The costs of unemployment compensation are of sufficient concern to justify the development of an accountability model whereby costs of unemployment compensation may be distributed to the administrative unit whose actions resulted in the payment of benefits.

A cardinal principle of control theory is that the cost of implementing the controls in relation to any given concern should not exceed the potential loss. Even the simplest model whereby costs are distributed to the administrative unit whose actions resulted in the payment of benefits would require the expenditure of administrative time and/or funds, both costs to the institution which might not otherwise have been incurred were it not for the model. The costs of implementing more sophisticated models are inherently greater. Thus, in the development of any accountability model, the costs of implementation must bear a favorable relation to the cost savings it may effect. Additionally, the costs attendant to a course of inaction must be of sufficient magnitude and concern to command the attention of those upon whom responsibility for development of alternative courses falls.

At the outset, the chief business officers of Michigan institutions of higher education were fearful that the costs of unemployment compensation coverage would pose a significant burden on their limited resources during a period of spiraling expenditures. Of those surveyed, however, it is evident that nearly one-half found expenditures attributable to this coverage, during the first two years, to be less than anticipated. Only 10 percent of those surveyed expressed the opinion that these expenditures were greater than anticipated. Furthermore, over half of those surveyed stated that these expenditures were of little significance in relation to their institution's total operating expenditures. It cannot be concluded, therefore, that these costs have been a major cause of concern at most institutions.

Yet almost as many stated these expenditures were of moderate significance (43.6 percent) while 5 percent felt they were of great significance in relation to their institution's total operating expenditures. Additionally, 21 percent expressed the opinion that these costs will be of greater significance in future years as opposed to 10 percent who anticipate that they will be of less significance. Taking their views into consideration, opinion is nearly evenly divided as to whether costs attributable to this coverage will be of little significance or of moderate to great significance in future years. It is probable, therefore, that at some institutions the costs of unemployment compensation are of sufficient concern to justify the development of an accountability model whereby costs of unemployment compensation may be distributed to the administrative unit whose actions resulted in the payment of benefits. At other institutions, sufficient concern is notably lacking.

Premise Four

An accountability model can be developed with definitive, concise criteria.

An accountability model, as defined in this study, is one whereby the costs (effects) that result or evolve from an identifiable action (cause) are borne by the unit responsible for that action as a cost of operation.

Unemployment compensation benefits paid to former employees are identifiable costs. An institution does not incur these costs until a former employee files a claim alleging that he or she is no longer employed by the institution and is otherwise entitled to benefits. Any benefits paid chargeable to the institution are based directly upon the claimant's former employment with the institution. This, in turn, can be pinpointed to a specific department or unit within the institution for which the claimant had performed services and from whose funds the claimant's wages had been paid.

The action giving rise to the payment of benefits can similarly be pinpointed. The claimant's employment with the institution may either have been terminated voluntarily by his or her own action or involuntarily by action of the institution. The import of this distinction is that departmental administrators may justifiably argue that they can not be held accountable for benefit payments resulting from actions beyond their control, i.e., employee initiated without good cause attributable to departmental actions, or where the department initiated the action in reaction to the claimant's conduct. Nevertheless, four institutions in the survey indicated that all benefit costs are distributed to the departments in which claimants had been employed without distinction. At two of these institutions, all benefits paid are charged directly to the salary and wages account from which the claimant, while employed by the institution, had been paid. At the other two institutions all benefits paid are charged to some other account within the department or division in which the claimant had been employed.

Eight other institutions, all in the public sector, charge all benefits paid to the account from which the claimant had been paid for one or more fund groups. From the data, however, it cannot be determined as to whether this practice represents a deliberate effort to hold such departmental administrators accountable or whether it has been implemented in accordance with dictates of the Auditor General which may be interpreted to require such differential treatment.

One other institution charges 10 percent of all benefits paid to the account from which the claimant, while employed, had been paid. The remaining 90 percent is charged to a clearing account to which all departments have contributed at a uniform rate. Thus, this method of cost distribution may be viewed as a middle ground whereby departmental administrators are held accountable for a portion of the cost of all benefits paid attributable to their operations but not so much as is deemed to be singularly detrimental to their programs.

From the study, then, it is evident that an accountability model which meets the stated criteria not only can be developed but has been implemented at several institutions. Additionally, variations in the design and extent of the operations to which the model is applied suggest that such a model may be modified and adapted to suit the needs and demands of different institutions.

The General Question

> In the opinion of financial administrators, should departmental administrators be held accountable for personnel actions which result in the payment of unemployment benefits?

From an analysis of the data, several findings have become evident. Sound personnel practices can serve to minimize the incidence and duration of unemployment benefits paid to former employees. The degree to which financial incentives may stimulate development and adherence to such practices, as perceived by the financial administrators included in the survey, however, is not so clearly delimited. While over half expressed a leaning toward utilization of financial incentives, opinion is nearly equally divided as to whether such incentives are essential or indeed may have a detrimental effect in this regard. Were the costs of unemployment compensation, as perceived and projected on the basis of their institution's experience during the first two years of coverage, to be of great significance, perhaps a greater number would favor financial incentives. Less than half of the financial administrators in the survey, however, felt these expenditures were of moderate or great significance in relation to their institution's total operating expenditures. Slightly more feel they will increase in significance in future years. Thus, it may be inferred that financial administrators favor a system whereby departmental administrators should be held accountable for personnel actions which result in the payment of unemployment benefits, but do not feel these costs to be of sufficient concern to warrant development and implementation of such a system. This, then, may account for the fact that only five institutions in the survey utilize a system whereby unemployment compensation costs which evolve from an identifiable personnel action are distributed to the department responsible for that action as a cost of operation, i.e., an accountability model, without regard to the nature or funding of the department.

Recommendations and Implications for Future Research

Earlier in this chapter, it was acknowledged that departmental administrators may justifiably argue that they can not be held acountable for benefit payments resulting from actions beyond their control, i.e., as the result of employee-initiated terminations or as the result of departmental-initiated terminations precipitated by actions of the employee. An employee, as an example of the former, may have terminated his or her employment to accompany his or her spouse to another locality, where suitable employment may be unavailable, and file a claim for benefits. As an example of the latter, a record of tardiness and absenteeism may have forced the action by the employer. In both cases, where the record is not in dispute, on ruling by the Commission the claimant will be precluded from receiving benefits for a period of at least six weeks and the period of eligibility for benefits will be commensurately reduced.

On the other hand, the claimant may have voluntarily terminated his or her employment because working conditions were deemed to have become intolerable, or be terminated by the department summarily without apparent cause attributable to the claimant. The former may result from subtle acts of invidious discrimination or harassment by supervisory personnel, assignment to degrading tasks not normally a part of the job duties, or reassignment to a distant work location. The latter may result from a reduction of workload, termination of a project, or to provide an opening for someone deemed more desirable or qualified to perform the job. In these cases, the claimant may draw benefits immediately, assuming all other eligibility conditions are met.

Thus, the Commission, operating in accordance with a body of law, issues a determination relative to each claim in which the merits of the claim are evaluated. In those cases where the claimant is held to have contributed to his or her termination, a disqualification period is imposed. In those cases where the department is held to have acted, i.e., terminated the claimant, without good cause attributable to the claimant, no such disqualification period is imposed and benefit payments may commence immediately.

The Commission's rulings are made on the basis of all available evidence submitted by both the claimant and the former employer and may be appealed by either party to a referee, an appeal board and to the courts.

Within the structure of the program, then, is a built-in mechanism whereby the institution may utilize the findings of the Commission as an impartial arbitrator. In those cases where a disqualification period is imposed, the department may be considered without fault. Where, however, the Commission awards benefits to a claimant immediately, departmental actions may be considered to have contributed to the claim and the departmental administrator may be held accountable for the costs of benefits paid.

Recommendation One. In all cases where a disqualification period is not imposed, a review of the circumstances leading to the claim should be conducted. This review should focus on the events and causes leading to the employee termination upon which the claim for benefits was awarded, an identification of employment practices which might be modified in the light thereof, and development of alternative courses of action structured to preclude a recurrence.

In those cases where a specific course of action is desirable, it should be implemented. In other cases, data should be accumulated upon which a decision can be based once sufficient data are available. Consideration should also be given to holding departmental administrators accountable for their actions resulting in the payment of benefits through a distribution of benefit costs to an account within their control.

The costs of unemployment compensation coverage to institutions of higher education may increase or decrease as the result of actions taken by the Federal or state legislatures and the courts. They may also be affected by economic conditions over which these institutions may have little or no control. Accordingly, these costs should be considered as neither static nor fixed. They may fluctuate dramatically or tend to increase or decrease over time. The costs during the first two years of coverage, therefore, may not be representative of future years. As such, the financial administrators of these institutions where costs during this initial two year period were considered to be of little significance can not afford to become complacent or to set aside their initial concerns regarding the potential costs of unemployment compensation coverage.

Recommendation Two. Procedures should be initiated and such modifications as may be necessary in the accounting/reporting structure so that, within each institution, the causes leading to unemployment compensation payments and the costs thereof can be monitored on an ongoing basis. Alternative procedures should be developed and placed in readiness so that should the costs rise to a level of concern, they may be implemented without undue, costly delay.

In Chapter V, it was noted that a dual system with regard to the accounting treatment of unemployment compensation expenditures predominates at the public institutions. Expenditures attributable to operations of the General Fund are charged to a General Fund expenditure account whereas expenditures attributable to operations of other funds are charged directly to accounts from which claimants had been paid. The cost burden resulting from unemployment compensation claims attributable to operations of the General Fund, therefore, is absorbed as an undistributed operating expense of the institution whereas for other funds the burden is passed on to the lowest level of administrative authority reflected in the accounting structure, i.e., the accounts from which the claimants had been paid. Thus, within the context of this study, these administrators are not held accountable for personnel actions resulting in the payment of unemployment compensation to claimants who were paid from the General Fund whereas they are held accountable for such actions resulting in the payment of unemployment compensations to claimants who were paid from other funds.

Thus, these institutions have in operation a system that lends itself to additional study and assessment of the effectiveness of financial incentives as a means of controlling the costs of unemployment. The incidence and duration of claims attributable to operations of the General Fund, for which departmental administrators are not held accountable through the distribution of costs to their operating funds, may be compared with similar data relating to other funds for which departmental administrators are held accountable.

Recommendation Three. Each institution in which a dual system with regard to the accounting treatment of unemployment compensation expenditures is now in operation should engage in a self study structured toward an assessment of the effectiveness of financial incentives in controlling unemployment compensation costs. The other institutions should consider the feasibility of establishing a dual system, within their institutions, so that a similar study can be conducted.

APPENDICES

APPENDIX A

ELIGIBILITY FOR LISTING 1972-73 DIRECTORY OF INSTITUTIONS OF HIGHER EDUCATION

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ELIGIBILITY FOR LISTING 1972-73 DIRECTORY OF

INSTITUTIONS OF HIGHER EDUCATION

To be eligible for listing in the directory, an institution must meet the following four requirements established by the State Board of Education: (1) It shall be incorporated under Act 327 of the Public Acts of 1931, as amended, or organized and operated in accordance with Act 142 of the Public Acts of 1964, as amended or publicly operated. (2) It shall offer programs leading to a degree, or offer two or more years of a college level program for transfer to a degree granting institution of higher learning listed in the directory. (3) It shall be in operation and enrolling students for classes for the academic year in which the directory is published. (4) It shall not be licensed under Act 148 of the Public Acts of 1943, as amended.[1]

Institutions Listed with Fall Term 1971
Enrollment in Parenthesis

Public Four-Year
Colleges and Universities

1. Central Michigan University, Mt. Pleasant (16,961)
2. Eastern Michigan University, Ypsilanti (21,466)
3. Ferris State College, Big Rapids (9,162)
4. Grand Valley State College, Allendale (4,174)
5. Lake Superior State College, Sault Ste. Marie (1,712)
6. Michigan State University, East Lansing (43,888)
7. Michigan Technological University, Houghton (5,002)
8. Northern Michigan University, Marquette (8,167)
9. Oakland University, Rochester (7,088)
10. Saginaw Valley College, University Center (2,124)
11. University of Michigan, Ann Arbor (39,986)
12. Wayne State University, Detroit (36,765)
13. Western Michigan University, Kalamazoo (22,971)

[1]1972-73 Directory of Institutions of Higher Education (Lansing, Michigan: Michigan Department of Education, 1973), p. 1.

Nonpublic Colleges with Enrollments of More Than 500

1. Adrian College, Adrian (1,447)
2. Albion College, Albion (1,782)
3. Alma College, Alma (1,328)
4. Andrews University, Berrien Springs (2,191)
5. Aquinas College, Grand Rapids (1,422)
6. Calvin College and Theological Seminary, Grand Rapids (3,450)
7. Cleary College, Ypsilanti (610)
8. Davenport College of Business, Grand Rapids (1,350)
9. Detroit College of Business, Dearborn (1,262)
10. Detroit College of Law, Detroit (835)
11. Detroit Institute of Technology, Detroit (1,139)
12. General Motors Institute, Flint (3,075)[2]
13. Grand Rapids Baptist College and Seminary, Grand Rapids (694)
14. Hillsdale College, Hillsdale (1,192)
15. Hope College, Holland (2,111)
16. Kalamazoo College, Kalamazoo (1,360)
17. Lawrence Institute of Technology, Southfield (4,107)
18. Madonna College, Livonia (727)
19. Mary Grove College, Detroit (1,641)
20. Mercy College of Detroit, Detroit (1,620)
21. Northwood Institute, Midland (2,839)
22. Olivet College, Olivet (832)
23. Shaw College at Detroit, Detroit (810)
24. Siena Heights College, Adrian (647)
25. Society of Arts and Crafts, Detroit (738)
26. Spring Arbor College, Spring Arbor (721)
27. University of Detroit, Detroit (9,597)

Nonpublic Colleges with Enrollments of 500 or Less

1. Concordia Lutheran Junior College, Ann Arbor (468)
2. Cranbrook Academy of Art, Bloomfield Hills (154)
3. Detroit Bible College, Detroit (295)
4. Duns Scotus College, Southfield (313)
5. Grace Bible College, Grand Rapids (154)
6. Great Lakes Bible College, Lansing (140)
7. John Wesley College, Owosso (196)

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[2] General Motors Institute is owned and supported by General Motors Corporation. It is not exempt as a nonprofit organization and was subject to coverage under both the Federal Unemployment Tax Act and the Michigan Employment Security Act prior to the amendments of 1970 and 1971, respectively. Accordingly, it has not been included in this study.

8. Mackinac College, Mackinac Island (enrollment not listed)
9. Maryglade College, Memphis (14)
10. Merrill-Palmer Institute, Detroit (84)
11. Michigan Christian Junior College, Rochester (219)
12. Midrasha--College of Jewish Studies, Southfield (313)
13. Muskegon Business College, Kalamazoo (429)
14. Nazareth College, Kalamazoo (400)
15. Reformed Bible College Association, Grand Rapids (108)
16. Sacred Heart Seminary, Detroit (113)
17. St. John Provincial Seminary, Plymouth (88)
18. S. S. Cyril and Methodius Seminary and St. Mary's College, Orchard Lake (156)
19. Suomi College, Hancock (399)
20. Walsh College of Accountancy and Business Administration, Troy (347)
21. Western Theological Seminary, Holland (114)
22. Yeshivath Beth Yehudah, Southfield (26)

APPENDIX B

SELECTED EXAMPLES OF PERSONNEL ACTIONS WHICH MAY RESULT IN THE PAYMENT OF BENEFITS

APPENDIX B

SELECTED EXAMPLES OF PERSONNEL ACTIONS WHICH MAY RESULT IN THE PAYMENT OF BENEFITS

Example I

An individual employed in an instructional, research or principal administrative capacity for the academic year may not be reappointed for the ensuing term or year. Such an individual is thereupon eligible for benefits (assuming all other eligibility criteria are met) unless he or she contracts to serve in a similar capacity at another institution of higher education for the ensuing term or year. Upon entering into such a contract, the individual is no longer eligible for benefits, even though the effective date of employment under the contract may be several weeks distant. Although it is likely that the administrator of the department in which the individual had been employed may know of these circumstances, unless the Commission is notified accordingly, benefit payments will continue so long as the individual claims to be unemployed. It is essential, therefore, that such information be communicated to the office charged with responding to claims so that they, in turn, can formally notify the Commission and request that benefit payments be terminated.

Example II

It is not uncommon for a new departmental administrator to reorganize his or her department along lines that may displace some personnel. Should such personnel be unable to relocate within the institution or to find suitable employment elsewhere, they will be eligible for benefits immediately upon termination. The potential cost of these benefits, therefore, should be considered in any reorganization, and communication with the employment office is essential so that it may work to relocate such displaced personnel.

Example III

An employee may be discharged for an act of assault, theft or sabotage connected with his or her work. In such cases, the individual may still be eligible for benefits after a twelve week disqualification period. The former employee in filing a claim, however, may allege that he quit, was laid off, or discharged for some other reason and seek to draw benefits immediately or after a six week disqualification period. At this juncture, the burden of proof rests upon the institution to notify the Commission of the facts leading to dismissal. Therefore, it is essential that termination records state accurately the reason for dismissal and that these records be transmitted to the office responding to claims so that appropriate notification to the Commission may follow.

Example IV

Similarly, an employee may be terminated for misconduct in connection with his or her work, intoxication while at work, absence from work which resulted from a violation of law for which he or she was convicted and sentenced to jail, or for participation in a strike or other concerted action contrary to the provisions of an applicable collective bargaining contract. In these cases, the individual may still be eligible for benefits after a six week disqualification. Again, termination records must be precise and include documentation to support the action so that, in the event of a dispute, the office responding to the claim may draw thereupon.

APPENDIX C

COVER LETTER FOR THE QUESTIONNAIRE--PUBLIC INSTITUTIONS

QUESTIONNAIRE--PUBLIC INSTITUTIONS

COVER LETTER FOR THE QUESTIONNAIRE--PRIVATE INSTITUTIONS

QUESTIONNAIRE--PRIVATE INSTITUTIONS

APPENDIX C

COVER LETTER FOR THE QUESTIONNAIRE--PUBLIC INSTITUTIONS
QUESTIONNAIRE--PUBLIC INSTITUTIONS
COVER LETTER FOR THE QUESTIONNAIRE--PRIVATE INSTITUTIONS
QUESTIONNAIRE--PRIVATE INSTITUTIONS

MICHIGAN STATE UNIVERSITY EAST LANSING · MICHIGAN 48823

OFFICE OF THE COMPTROLLER · 305 JOHN A. HANNAH ADMINISTRATION BUILDING · TELEPHONE (517) 355-5020

May 3, 1974

It has now been over two years since we became subject to the provisions of the Michigan Employment Security Act. June 30th will mark the end of the second full fiscal year in which we have had to consider the costs of Unemployment Compensation in budgetary planning. Accordingly, it seems an appropriate time to review our experience, evaluate our internal program in terms of its effectiveness in holding these costs to a minimum, and make such modifications as may appear desirable.

Of course, even after two years our experience may yet be limited in some areas. It is our thought, therefore, that by also drawing upon the experience of the other twelve State institutions we may broaden the data base upon which changes in our program may be formulated. Your assistance in completion of the enclosed questionnaire will be most helpful. A return addressed, postage paid envelope is enclosed for your convenience.

In the belief that our findings will be of interest to you as well, a summary thereof will be mailed to you shortly after all responses are tabulated. Hopefully, this will be in early June so that there may be some benefit in planning for the new fiscal year.

My assistant, Robert Lockhart, who moderated the workshop here at MSU two years ago, will tabulate and summarize the responses. Should any question arise, therefore, it should be addressed directly to him. Bob's telephone number is (517) 355-5022. As some of the questions solicit your opinion, complete confidentiality is assured to encourage you to respond as openly and frankly as possible. The questionnaire is brief and should not take but a few minutes of your time. Thanks for your help.

Sincerely,

Paul V. Rumpsa
Comptroller

Enclosure

UNEMPLOYMENT COMPENSATION QUESTIONNAIRE

MICHIGAN STATE UNIVERSITY

MAY 1974

There are ten principal questions in this questionnaire, a few of which require mutiple responses. It is structured to facilitate direct responses reflecting what we believe is the pattern at most institutions. It may be that there are unique aspects to the program as administered at your institution to which the questionnaire does not lend itself. Should this be the case, additional comments would be welcomed.

1. Within the organizational structure of your institution, where does the primary responsibility for the internal administration of Unemployment Compensation fall?

    a)_____ Office of the President
    b)_____ Office of the Chief Business and/or Financial Officer
    c)_____ Office of the Chief Academic Officer
    d)_____ Other. Please indicate:______________________________

2. To what specific office is authority delegated?

    a)_____ Employee or Staff Benefits
    b)_____ Payroll
    c)_____ Personnel
    d)_____ Other. Please indicate:______________________________

3. Has an expenditure account been established in the General Fund for Unemployment Compensation?

    A)____Yes 1) In what functional classification?

    a)_____ Business Operations
    b)_____ Operation & Maintenance of Plant
    c)_____ Retirement and other Fringe Benefits (Reallocated to functions)
    d)_____ Other. Please specify:_______________

2) Are all claims, i.e., reimbursements to the Michigan Employment Security Commission, charged to this account?

a)_____ Yes
b)_____ No, only those claims attributable to operations of (Please check all that apply):

1)_____ General Fund
2)_____ Designated Fund
3)_____ Expendable Restricted Fund
4)_____ Agency Fund
5)_____ Others. Please specify:
____
____

3) Are administrative expenses charged to this account?

a)_____ Yes
b)_____ No

B)_____ No

1) Expenditures (Reimbursements to the Michigan Employment Commission) are charged to:

a)_____ Departmental accounts from which claimants were paid
b)_____ An account within the department or division in which claimants were employed
c)_____ A clearing account operating as a "pool" to which departmental contributions have been credited
d)_____ Other. Please explain:________________
____
____

2) Were departmental allocations increased in consideration of such expenditures?

a)_____ Yes
b)_____ No

3) <u>If charges are made to a clearing account operating as a "pool,"</u> were departmental accounts assessed on:

a)_____ A uniform percentage of payroll
b)_____ An experience rated formula
c)_____ Other basis. Please explain:
____
____
____

4. Are reimbursements to the Commission attributable to operations in the Designated Fund distributed as a direct charge to the account from which the claimant had been paid?

A)____ Yes
B)____ No 1) Where are they charged?

a)_____ To the General Fund Expenditure account
b)_____ To an account within the department or division in which claimants were employed
c)_____ To a clearing account operating as a "pool" to which departmental contributions have been credited
d)_____ Other. Please explain:_______________

2) <u>If charges are made to a clearing account operating as a "pool,"</u> were departmental accounts assessed on:

a)_____ A Uniform percentage of payroll
b)_____ An experience rated formula
c)_____ Other basis. Please explain:

5. Are reimbursements to the Commission attributable to operations in all other funds (excluding the General Fund) treated in the same manner as the Designated Fund?

A)____ Yes
B)____ No 1) Which funds are accorded different treatment?

a)_____ Expendable Restricted Fund
b)_____ Auxiliary Activities Fund
c)_____ Agency Fund
d)_____ Other. Please specify________________

2) Please explain how these are handled:

6. Centralized hiring of all personnel; measures to stabilize employment through interdepartmental cooperation in scheduling employees to meet the needs of varying and seasonal workloads; better use of probationary periods; increased utilization of outside contractors; exit interviews with dismissed or terminated employees; and an aggressive centralized follow-up program to find suitable work for former employees who have filed claims have all been mentioned as ways to minimize the incidence and duration of unemployment compensation claims.

   Do you believe these measures can function effectively without budgetary controls, i.e., distribution of costs incurred to the level of administrative responsibility at which personnel actions giving rise to them took place?

   A)____ Yes   Would budgetary controls

   1)_____ Add to the effectiveness of these measures?
   2)_____ Be of questionable or little value in addition to these measures?
   3)_____ Be difficult to administer fairly and may have a negative impact on the effectiveness of these measures?

   B)_____ No

7. Have expenditures for unemployment compensation during the first two years of coverage been

   a)_____ Less than anticipated
   b)_____ About as anticipated
   c)_____ Greater than anticipated

8. In relation to your institution's total operating expenditures, were these expenditures

   a)_____ Of little significance
   b)_____ Of moderate significance
   c)_____ Of great significance

9. In relation to your institution's total operating expenditures, do you anticipate these costs in future years will be

   a)_____ Of less significance
   b)_____ Of about the same significance
   c)_____ Of great significance

10. In your opinion, has coverage under the Michigan Employment Security Act at your institution (Please check all that apply)

a)_____ Resulted in better employment practices?
b)_____ Given employees a greater sense of security?
c)_____ Resulted in a reduction of your workforce, e.g., through use of more outside contractors?
d)_____ Helped to eliminate sub-standard employees through shorter probationary periods or earlier termination of unsatisfactory probationary employees?
e)_____ Brought about greater interdepartmental cooperation in scheduling employees to meet the needs of varying or seasonal workloads?
f)_____ Increased use of exempt student employees to fill part time employment needs?

Completed by:_____________________
Telephone No._____________________

Please return the completed questionnaire to:

Robert M. Lockhart, Assistant Comptroller
305 Hannah Administration Building
Michigan State University
East Lansing, Michigan 48824

A return addressed, postage paid envelope is enclosed for your convenience.

MICHIGAN STATE UNIVERSITY EAST LANSING · MICHIGAN 48823

OFFICE OF THE COMPTROLLER · 305 JOHN A. HANNAH ADMINISTRATION BUILDING · TELEPHONE (517) 355-5020

It has now been over two years since we became subject to the provisions of the Michigan Employment Security Act. June 30th will mark the end of the second full fiscal year in which we have had to consider the costs of Unemployment Compensation in budgetary planning. Accordingly, it seems an appropriate time to review our experience, evaluate our internal program in terms of its effectiveness in holding these costs to a minimum, and make such modifications as may appear desirable.

Of course, even after two years our experience may yet be limited in some areas. It is our thought, therefore, that by also drawing upon the experience of the other Michigan Institutions of Higher Education we may broaden the data base upon which changes in our program may be formulated. Your assistance in completion of the enclosed questionnaire will be most helpful. A return addressed, postage paid envelope is enclosed for your convenience.

One or two of the questions may seem a bit complex, especially for the smaller institutions which may not be faced with the problems of decentralized budgetary controls. We do feel, however, that we may benefit from the experiences of even the smallest institution. In the belief that our findings will be of interest to you as well, a summary thereof will be mailed to you shortly after all responses are tabulated. Hopefully, this will be in early June so that there may be some benefit in planning for the new fiscal year.

As some of the questions solicit your opinion, complete confidentiality is assured to encourage you to respond as openly and frankly as possible. The questionnaire is brief and should not take but a few minutes of your time. Thanks for your help.

Sincerely,

Robert M. Lockhart
Assistant Comptroller

Enclosure

UNEMPLOYMENT COMPENSATION QUESTIONNAIRE

MICHIGAN STATE UNIVERSITY

MAY 1974

There are ten principal questions in this questionnaire, a few of which require mutiple responses. It is structured to facilitate direct responses reflecting what we believe is the pattern at most institutions. It may be that there are unique aspects to the program as administered at your institution to which the questionnaire does not lend itself. Should this be the case, additional comments would be welcomed.

1. Within the organizational structure of your institution, where does the primary responsibility for the internal administration of Unemployment Compensation fall?

   a)_____ Office of the President
   b)_____ Office of the Chief Business and/or Financial Officer
   c)_____ Office of the Chief Academic Officer
   d)_____ Other. Please indicate: ____________________________

2. To what specific office is authority delegated?

   a)_____ Employee or Staff Benefits
   b)_____ Payroll
   c)_____ Personnel
   d)_____ Other. Please indicate:____________________________

3. Has an expenditure account been established in the Current Fund for Unemployment Compensation?

   A)____ Yes 1) In what functional classification?

   a)_____ Operation & Maintenance of Plant
   b)_____ General Administration
   c)_____ Staff Benefits
   d)_____ Other. Please specify:_______________

2) Are all contributions or reimbursements to the Michigan Employment Security Commission charged to this account?

a)_____ Yes
b)_____ No, only those expenditures attributable to operations of the Current Fund (Please check all that apply):

1)_____ Educational and General
2)_____ Auxiliary Activities
3)_____ Service Departments

3) Are administrative expenses charged to this account?

a)_____ Yes
b)_____ No

B)_____ No

1) Expenditures (Contributions or reimbursements to the Michigan Employment Commission) are charged to:

a)_____ Departmental salary and wages accounts
b)_____ Departmental or divisional accounts other than salary and wages accounts
c)_____ A clearing account operating as a "pool" to which departmental contributions have been credited
d)_____ Other. Please explain:_______________

____

____

2) Were departmental allocations increased in consideration of such expenditures?

a)_____ Yes
b)_____ No

3) <u>If charges are made to a clearing account operating as a "pool,"</u> were departmental accounts assessed on:

a)_____ A uniform percentage of payroll
b)_____ An experience rated formula
c)_____ Other basis. Please explain:

____

____

____

4. Are contributions or reimbursements to the Commission attributable to operations in all other funds treated in the same manner as the Current Fund?

A)_____ Yes
B)_____ No

Please explain how these are handled:

____
____
____
____
____
____

5. Did your institution elect to reimburse the Michigan Employment Security Commission for benefits paid attributable to your status as a covered employer in lieu of contributions?

A)____ Yes

1) When did the election become effective?

a)_____ January 1, 1972
b)_____ January 1, 1973
c)_____ January 1, 1974

2) Have you terminated the election?

a)_____ Yes
b)_____ No

B)____ No

1) Do you believe it likely that you will exercise this option effective January 1, 1975?

a)_____ Yes
b)_____ No

6. Centralized hiring of all personnel; measures to stabilize employment through interdepartmental cooperation in scheduling employees to meet the needs of varying and seasonal workloads; better use of probationary periods; increased utilization of outside contractors; exit interviews with dismissed or terminated employees; and an aggressive centralized follow-up program to find suitable work for former employees who have filed claims have all been mentioned as ways to minimize the incidence and duration of unemployment compensation claims.

   Do you believe these measures can function effectively without budgetary controls, i.e., distribution of costs incurred to the level of administrative responsibility at which personnel actions giving rise to them took place?

   A)____ Yes   Would budgetary controls

   1)_____ Add to the effectiveness of these measures?
   2)_____ Be of questionable or little value in addition to these measures?
   3)_____ Be difficult to administer fairly and may have a negative impact on the effectiveness of these measures?

   B)_____ No

7. Have expenditures for unemployment compensation during the first two years of coverage been

   a)_____ Less than anticipated
   b)_____ About as anticipated
   c)_____ Greater than anticipated

8. In relation to your institution's total operating expenditures, were these expenditures

   a)_____ Of little significance
   b)_____ Of moderate significance
   c)_____ Of great significance

9. In relation to your institution's total operating expenditures, do you anticipate these costs in future years will be

   a)_____ Of less significance
   b)_____ Of about the same significance
   c)_____ Of great significance

10. In your opinion, has coverage under the Michigan Employment Security Act at your institution (Please check all that apply)

a)_____ Resulted in better employment practices?
b)_____ Given employees a greater sense of security?
c)_____ Resulted in a reduction of your workforce, e.g., through use of more outside contractors?
d)_____ Helped to eliminate sub-standard employees through shorter probationary periods or earlier termination of unsatisfactory probationary employees?
e)_____ Brought about greater interdepartmental cooperation in scheduling employees to meet the needs of varying or seasonal workloads?
f)_____ Increased use of exempt student employees to fill part time employment needs?

Completed by:_______________________
Telephone No._______________________

Please return the completed questionnaire to:

Robert M. Lockhart, Assistant Comptroller
305 Hannah Administration Building
Michigan State University
East Lansing, Michigan 48824

A return addressed, postage paid envelope is enclosed for your convenience.

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