

# **CHAPTER VII**

## **FIELD AUDIT**

### **COMPONENTS**

**INTRODUCTION**

**COMPUTED MEASURES**

**PROGRAM REVIEW**



# **INTRODUCTION**



**FIELD AUDIT**

**INTRODUCTION**

The Field Audit operation examines employer records to assist employers in their effort to comply with State law and regulations and to determine if wages and taxes have been reported in accordance with the law and agency policies. The major tasks performed by the Field Audit function are:

- Select employers for audit
- Audit employer records
- Process and record all information (Account Maintenance)
- Handle appeals as appropriate

**PRIMARY OBJECTIVE**

The primary objective of the Field Audit function is to promote and verify employer compliance with State laws, regulations and policies. Successful completion of this objective may be accomplished through achievement of four sub-objectives:

1. Identify employer noncompliance (**Accuracy**)
2. Direct audit selection at noncompliance (**Accuracy**)
3. Maintain a defined level of audit production (**Completeness**)
4. Ensure that the Field Audits meet the key requirements of the Field Audit Function section of the ES Manual (**Completeness**)

**Accuracy and Completeness** To evaluate the achievement of Sub-objectives 1, 2, and 3, Computed Measures will be generated based on data routinely reported by States. These data elements will be converted into three indicators by the TPS ADP system.

**Completeness** The effectiveness of Sub-objective 4 will be assessed through findings from a Program Review designed to measure State conformity to ETA audit policy as defined by the Employment Security Manual (ESM). A Program Review will assess how closely the State has followed ETA audit policy.

## **REVIEW METHODOLOGIES**

### ***Computed Measures***

Computed measures will provide indicators for analysis of improper employer reporting and audit penetration by both number and size of employer. The three indicators which will be used are:

1. Percent of change in total wages resulting from audit
2. Percent of contributory employers audited
3. Percent of total wages audited. (Annualized)

### ***Program Review***

The Program Review to be conducted for Field Audit has two components - a Systems Review and an Acceptance Sample.

## REVIEW METHODOLOGIES

### *Program Review cont.*

The Systems Review covers the following topics:

- Recorded Information and Instructions
- Training
- Recording of Transactions and Events
- Systems to Assure Execution of Events
- Review of Completed Work

The Systems Review will be used to examine the controls and quality assurance systems known to be required for a quality field audit operation and to determine if the State has such controls. A State's utilization of these controls should result in a quality field audit operation.

The Acceptance Sample examines the following:

- Completed Audits

In conjunction with the Systems Review, an Acceptance Sample of completed field audits will be examined using the Field Audit Acceptance Sample Checklist. The Field Audit Acceptance Sample Checklist, containing questions on key audit policy requirements, will aid the reviewer in determining if the sampled audits conform to the requirements. It is presumed that States which do well on the Program Review (i.e., have an adequate system of internal controls and pass the Acceptance Sample) have a quality audit program.

Through the use of computed measures to assess productivity, and a Program Review to assess quality, TPS will gather data on what constitutes an effective audit program. TPS analysis of this data should indicate where States may need to improve operations or be aware of vulnerabilities they may have in their program.

**ET HANDBOOK NO. 407  
TAX PERFORMANCE SYSTEM**

**CHAPTER SEVEN**

**FIELD AUDIT**

**INTRODUCTION**



## **COMPUTED MEASURES**



**FIELD AUDIT**

**COMPUTED MEASURES**

**COMPUTED MEASURES**

Computed measures in the Field Audit function will provide for analysis of improper employer reporting and audit penetration by both number and size of employer. These measures will be generated by using data elements reported by States through routine reports currently submitted.

Some States accumulate the data elements required for the Field Audit measures through ADP systems. Other States keep manual records. Either way it is important that accurate records be kept from the beginning. Upon implementation of the TPS program, the State TPS reviewer must ensure that the State ADP system captures these data elements as defined so that the National Office ADP system can produce accurate reports based on these data elements. The data needed will be automatically extracted from the system currently used to electronically transmit these reports from the States to the National Office. Appendix B explains the technical process for gathering this information.

**Field Audit Indicators.** Three indicators have been developed for Field Audit:

1. Percent of change in total wages resulting from audit
2. Percent of contributory employers which are audited
3. Percent of total wages audited (Annualized)

**Indicator 1 - Total Wage Change.** The percent of change in total wages resulting from audit for a given calendar year.

**Rationale.** The objective is to encourage the search for misclassified workers and to assess whether States are targeting their audits to maximize the discovery of improper employer reporting. The State will be able to compare results when changes in the audit selection parameters are made that accommodate the identified areas of noncompliance.

**COMPUTED MEASURES**

To minimize differences among States in wage and salary levels, the audit change measure is being computed by taking the ratio of the audit-found change in total wages to the pre-audit total wages originally reported by the audited firms reviewed in a specified calendar year. (The

**FIELD AUDIT**

**COMPUTED MEASURES**

numerator for the following formula includes total wages overreported (ETA 581 # 56) and total wages underreported (ETA 581 # 53). The denominator, total wages audited - pre-audit, is reported on the ETA 581 # 49.)

It should be noted that the absolute value of all changes (i.e., both underreported and overreported wage changes) will be used in the numerator. This is to ensure that all mistakes are valued in the indicator. Although net audit yield may be preferable from a cost-benefit standpoint, it does understate the extent of employer reporting errors, and the need to take remedial action to improve voluntary compliance.

Formula

$$\frac{\text{Total wages overreported (581 #56) + total wages underreported(581 #53)}}{\text{Total wages audited - Pre-Audit (581 # 49)}}$$

Data Elements

The total wages underreported and the total wages overreported are the amounts of total wages reported in error by employers as discovered by audit. These amounts should be the same as currently reported on Form ETA 581 #53 and #56 respectively.

The denominator, total wages audited, is the pre-audit total wages originally reported by audited accounts. These amounts are reported on the Form ETA 581 # 49.

FIELD AUDIT

COMPUTED MEASURES

### COMPUTED MEASURES

**Indicator 2- Employers Audited.** The percent of contributory employers which are audited for the calendar year under review.

Rationale. This indicator reflects the percent of contributory employers which are audited for a specified calendar year. It is intended to provide a measure of State audit production. Because audits of employer records are an effective means of not only determining the extent of employer non-compliance, but also of ensuring employer compliance, it is important that States perform such audits.

Audit production has been measured by the number of audits completed relative to the number of contributory employers (penetration rate) and judged against a desired level of achievement (DLA). The current formula of measuring audit production will be similar, but with a slightly different period of review. The desired percentage of contributory employers audited, will depend upon the performance enhancement indicator established by the State's annual plan of the audit program quality measure sub-objectives.

#### Formula

Number of audits completed during the four (581) report quarters  
Number of Contributory Employers at end of the (581)report quarter  
two quarters prior to the four quarters in which the audits were performed

#### Data Elements

Numerator - The number of audits completed during the four (ETA 581 # 47) report quarters is the total number of audits completed by the State during the specified four quarter period. This should be the same number as the sum of Form ETA 581 # 47 for the four quarters of a given calendar year.

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COMPUTED MEASURES

**COMPUTED MEASURES**

Denominator - The number of contributory employers at the end of the report quarter two quarters prior to the four quarters in which the audits were completed. The total number of known contributory employers for a given period should be the same number as Form ETA 581 #1 for the end of the quarter two quarters prior to the four quarters in which the audits were completed. In other words, this is the number of contributory employers at the end of September prior to the calendar year in which the audits were completed.

**Indicator 3 - Wages Audited.** The annualized percent of total wages audited for the calendar year under review.

Rationale. Because it is simpler and less time-consuming to audit small employers, a simple employer penetration rate measure encourages small employer audits. However, non-compliance among large employers may have a greater impact on the State's trust fund. To encourage audits of larger firms, TPS has an additional penetration measure: the percent of total wages audited.

The following formula gives a fairly precise estimate of annualized audit penetration of total wages using available data.

Formula

$$\frac{(\text{Total Wages Audited Post-Audit (\#50) for four (581) report quarters} / \text{Total Quarters Audited (\#48) for four (581) report quarters}) \times \text{Total number of Audits (\#47) for four (581) report quarters} \times 4 \text{ quarter}}{\text{Total Wages of Contributory Employers for prior four quarters (ES 202)}}$$

EQUALS (=) annualized percent (%) of total wages audited  
(total wage penetration rate)

**COMPUTED MEASURES**

Calendar year instead of fiscal year is used in this formula the same as for the employer penetration rate formula. This formula provides a measure of wage penetration based on average wages per quarter audited from which a comparison of audit production could be drawn.

Available data indicates that the average audit consists of slightly over four quarters. As a result the average audit contains wages of more than one calendar year. Averaging the quarters compensates for this fact and gets a comparable percentage of quarterly wage penetration. Multiplying it by four quarters in a year annualizes the audited payroll. Multiplying this result by the total number of audits in the year results in the numerator (annualized total payroll audited).

Dividing this numerator by a denominator of total wages of contributory employers for the target year expresses wage penetration as the annualized percent of total wages audited.

To further illustrate how this formula compensates for audits with wages outside the target year, see the example below:

Available data indicated that the State completed 1000 audits, covering 5000 quarters and \$10,000,000 gross payroll and total wages of contributory employers for prior year (ES 202) \$200,000,000.

If we apply the proposed wage penetration formula, it becomes easier to understand how the formula minimizes the effect of audited wages outside the target year. In this case the National Office would make the following calculation:

$$\frac{\$10,000,000}{5000} = \$2000 \text{ (average quarterly gross payroll audited)}$$

$$\$2,000 \times 4 \times 1000 \text{ audits} = \$8,000,000 \text{ (annual gross payroll audited)}$$

**FIELD AUDIT**

**COMPUTED MEASURES**

**COMPUTED MEASURES**

$$\frac{\$8,000,000}{\text{Total wages of contributory employers for prior year (ES 202) } \$160,000,000} = 2\% \text{ penetration rate}$$

Since most of the audits will be of a given target year, the fact that some wages of other years may be included in some of the audited quarters will be minimized. The penetration figure resulting from the formula will be comparable from year to year and the impact of wages outside the target year will be diminished over time by this averaging. Inflation in the total wage picture will also help offset the effects of wages outside the target year. As wages in the numerator that are outside the target year would normally tend to suppress the denominator (i.e., the percent of wage penetration for the target year should be greater because the numerator is inflated by wages outside the target year), the suppression is offset by inflationary effects on the wages of the target year in the denominator. (i.e., wages tend to rise from year to year due to inflation and the inflated wages in the denominator divided into the less inflated non-target year wages in the numerator will lower the percent of wage penetration)

Data Elements

Numerator - For audited wages, the measure should be total wages-post audit per audited quarter, times the number of audits conducted. To analyze a year, the quarterly gross payroll audited for the calendar year should be divided by the numbers of quarters audited for the calendar year, then multiplied times 4 to annualize the data, then multiplied times the number of audits conducted for the calendar year.

Denominator - For total wages, the measure should be total wages per employer (ES 202 quarterly total wages for the prior four quarters).

Indicator - The indicator would be the ratio of annualized audited gross payroll to total wages for the year.



**FIELD AUDIT**

**COMPUTED MEASURES**

**COMPUTED MEASURES**

**Drawing Conclusions.**

An analysis of the results of the Field Audit Computed Measures will reveal how well the State is managing its Field Audit program. Looking at trends of the three indicators can indicate the degree of "penetration" into both the number of employers and amount of total wages being audited and whether this "penetration" is productive in revealing the amount of misreported wages.

Findings or trends from these Computed Measures should be considered along with findings in the Systems Review and Acceptance Sample for evaluating the effectiveness of the State's Field Audit program and be included in the TPS Annual Report.



# **PROGRAM REVIEW**

## **COMPONENTS**

**SYSTEMS REVIEW**

**ACCEPTANCE SAMPLES**



# **SYSTEMS REVIEW**



FIELD AUDIT

PROGRAM REVIEW

**SYSTEMS REVIEW INTERVIEW SHEET**

<b>Function</b>	<b>Reviewer</b>
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<b>Persons Interviewed</b>			<b>Documents Reviewed</b>	
<b>Date</b>	<b>Name:</b>	<b>Title:</b>	<b>Title:</b>	<b>Form#:</b>

**FIELD AUDIT**

**PROGRAM REVIEW**

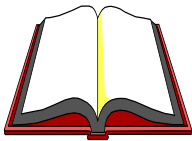


**SYSTEMS REVIEW**

*Recorded Information and Instructions*

**For Field Audit, the recorded information and instructions should include requirements for unemployment insurance coverage and procedures for conducting field audits. As a general rule, TPS will consider a State's recorded instructions to be current, accurate and complete if it contains, as a minimum, the requirements specified in the ESM as it appears in the appendix of this handbook and presents the State's unemployment insurance coverage rules. While ESM 3683 requires a formal Field Audit manual, this requirement may be met by handbooks, desk aids, computerized help screens, etc. that include the specified requirements.**

The reviewer should examine recorded information and instructions available to employees involved with performing Field Audit functions. Compare the procedures to the laws and written policies of the State.



In the narrative section following the questions, explain "other" responses, and describe "compensating controls". Identify the question being explained by referencing the number and section. If there are no recorded instructions, describe in the narrative how personnel know the laws and written policies and procedures to perform their assigned tasks.



**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW QUESTIONS**

1. Are the State's recorded instructions:
- Yes   No
- a. Current? .....
  - b. Accurate? .....
  - c. Complete? .....
  - d. Readily available to staff?.....

2. Does the State have recorded instructions to assist the auditor in understanding the Field Audit requirements of the (ESM) in sufficient detail to properly complete a Field Audit?
- Yes\_\_\_\_ No\_\_\_\_

If yes, do the instructions explain to the auditor how to perform the following:

- Yes   No
- a. How to complete a pre-audit discussion and who should be involved in the discussion?.....
  - b. How to verify the existence of the business?.....
  - c. How to verify the ownership of the business?.....
  - d. How to perform tests to verify the accuracy and completeness of reported payroll and how to record the findings? .....

**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW QUESTIONS**

- |   | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| e. How to perform tests to search for misclassified workers and hidden wages and how to record the findings?.....   |            |           |
| f. How to determine the minimum number of consecutive calendar quarters necessary to constitute an audit and how to record in the audit when the minimum or tolerance guidelines are disregarded? ..... |            |           |
| g. How to conduct a post-audit discussion and who should be involved in the discussion?.....  |            |           |
| h. How to resolve the collection of the debt incurred by the audit?.....  |            |           |
| i. How to properly prepare adjustment reports and the routing of the adjustment reports when the audit resulted in change?.....   |            |           |

VS:(Questions 1 and 2 \_\_\_\_\_)

**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW QUESTIONS**

3. If any of the preceding evaluative questions are answered "no", does the State have a substitute or compensating control?

Yes \_\_\_ No \_\_\_ N/A \_\_\_

If Yes, describe in the Narrative Section following these questions.

VS: (Question 3 \_\_\_\_\_)

**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW NARRATIVE**

Question Number	Explanation Of "N/A" and "Compensating Controls" (when deemed necessary)
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Question Number	Answers to "if yes, describe", and "Other":
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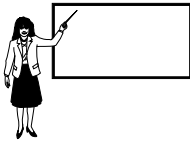
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**SYSTEMS REVIEW**

*Training*

**New employees need to learn the requirements for unemployment insurance coverage and the procedures for conducting field audits. Existing employees benefit from periodic refresher courses and need additional training when changes occur, and when quality defects or a significant number of errors appear in a particular area.**

The reviewer should become familiar with methods and systems used to identify and meet field audit training needs.



In the narrative section following the questions, explain "other" responses and describe "compensating controls". Identify the question being explained by referencing the number and section. If there are no training programs, describe in the narrative how personnel know the laws and written policies and procedures to perform their assigned tasks.





**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW QUESTIONS**

1. Does the State have methods or procedures to provide training for newly hired employees?

Yes \_\_\_ No \_\_\_

\*If yes, identify the type of training:

Yes No

- a. \*Formal Classroom Training? .....
- b. \*On the Job Training?.....
- c. \*One-on-One Training? .....
- d. \*Individual Self-guided Training?.....
- e. \*Other?.....

Describe the type and frequency of training in the narrative.

2. Does the State have methods or procedures to provide refresher training for experienced employees?

Yes \_\_\_ No \_\_\_

\*If yes, identify the type of training:

Yes No

- a. \*Formal Classroom (e.g., refresher courses)? .....
- b. \*On the Job Training?.....
- c. \*One-on-One Training? .....
- d. \*Individual Self-guided Training?.....
- e. \*Other?.....

Describe the type and frequency of training in the narrative.

**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW QUESTIONS**

3. Does the state provide training when there are: Yes No N/A
- a. State law changes?.....
  - b. Policy/procedure changes?.....
  - c. Needs identified from review of finished work  
(e.g., supervision, quality assurance review)?.....
  - d. Hardware/software changes?.....
  - e. \*Other?.....

VS: (Questions 1-3 \_\_\_\_\_)

4. Does the state have processes (e.g., back-up training or organizational flexibility) to assure that staff absences will not disrupt operations? Yes \_\_\_ No \_\_\_
- If Yes, describe in the Narrative Section

5. \*In the opinion of the supervisor or manager, does the training meet the needs of the Field Audit function? (e.g., are sufficient resources available--training packages, facilities, staff, etc.) Yes \_\_\_ No \_\_\_

6. If any of the preceding evaluative questions were answered "No", does the state have a substitute or compensating control? Yes \_\_\_ No \_\_\_ N/A \_\_\_
- If Yes, describe in the Narrative Section

VS: (Questions 4 and 6 \_\_\_\_\_)

**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW NARRATIVE**

Question Explanation Of "N/A" and "Compensating Controls"  
Number (when deemed necessary)

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Question  
Number Answers to "if yes, describe", and "other":

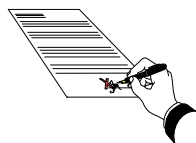
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## SYSTEMS REVIEW

### *Recording of Transactions and Events*

The State should have procedures and controls to assure that at a minimum, completion of the basic requirements of a Field Audit are recorded in the completed audit. Whether the State's system is automated or manual, an audit trail should exist. It is reasonable to assume that events of a completed audit should be sufficiently documented to enable persons such as supervisors, reviewers or subsequent auditors to understand the reason for the audit and to understand the audit procedure, findings and conclusions. It is also reasonable to assume that if these procedures or internal controls are in place, the audits have an increased probability of being of acceptable quality.



An effective audit should document the major steps entailed, such as pre-audit interview, and tests of the employer's payroll records, and tests to search for misclassified workers and hidden wages. Documentation in the form of work paper(s) for each test should contain the test performed, employer name and account number, and the period under review. These instructions are to be considered as a minimum and each State should develop their own work paper format and their respective method for organizing the work papers. It can take the shape of a check list of actions taken or a description in narrative form.

In the section following the questions, explain "other" responses, and describe "compensating controls". Identify the question being explained by referencing the number and section.

**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW QUESTIONS**

1. Does the State have a method to assure that Field Audit findings and conclusions can be traced to their information sources? Yes \_\_\_ No \_\_\_
2. Can the following be identified through the audit trail: Yes No
- a. The name and title of employer or designated representative involved in pre-audit discussion? .....
  - b. How the auditor verified the existence of the business? .....
  - c. How the auditor verified the ownership of the business? .....
  - d. The tests performed to verify the accuracy and completeness of reported payroll? .....
  - e. The employer records that were examined to search for misclassified workers and hidden wage? .....
  - f. That four consecutive calendar quarters were audited or that an acceptable explanation was provided? .....
  - g. The name, title, and telephone number of employer or an identified designated representative involved in the post-audit discussion? .....

**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW QUESTIONS**

Yes No N/A

- h. When the audit resulted in the employer owing additional tax, that the auditor either collected it or provided an acceptable explanation why the monies were not collected? (If the State policy does not require the auditor to attempt collection, answer "N/A" to the question.) .....
  - i. The adjustment reports prepared and submitted (when an audit results in a change)? .....
3. Are Field Audit support documents retained and accessible for State use?  
Yes \_\_\_ No \_\_\_
4. Are the Field Audit completion date and results retained and accessible for State use?  
Yes \_\_\_ No \_\_\_

VS: (Questions 1 – 4 \_\_\_\_\_ )

5. If any of the preceding evaluative questions were answered "no", does the State have a substitute or compensating control?  
Yes \_\_\_ No \_\_\_ N/A \_\_\_
- If yes, describe in the "Narrative" section following these questions.

VS:(Question 5 \_\_\_\_\_ )

**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW NARRATIVE**

Question Number	Explanation Of "N/A" and "Compensating Controls" (when deemed necessary)
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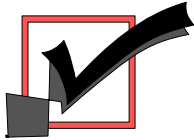
Question Number	Answers to "if yes, describe", and "other":
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## SYSTEMS REVIEW

### *Systems to Assure Execution of Events*

A central or district office control system for assigning and monitoring field audit assignments serves as a management tool. It provides the State with a means of monitoring the number of audit assignments, to whom the assignments are made, the State of work in progress, the completion of audit assignments and if they were completed timely. It also gives the State control over certain requirements for audit assignments such as four quarter scope and any criteria for audit selection the State may use.



The reviewer should become familiar with the systems used by the State for completing field audits.

In the narrative section following the questions, explain "other" responses, and describe "compensating controls". Identify the question being explained by referencing the number and section. If there are no internal controls or safeguards, describe how it assures accurate and timely completion of work.



**FIELD AUDIT**

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**SYSTEMS REVIEW QUESTIONS**

1. Does the State have a control system for assigning and monitoring field audit assignments?

Yes \_\_\_ No \_\_\_

a. If yes, does the control system:

Yes No

- (1). Indicate the issue date of the assignment? .....
- (2). Identify the office/individual receiving the assignment? .....
- (3). Indicate the actual assignment completion date? .....

b. If yes, (to question 1 above), is the control system:

- (1).\* Automated? .....
- (2).\* Located in the central office? .....
- (3).\* Located in a district/regional office? .....
- (4).\* Located elsewhere? (Describe in narrative).....

VS: (Question 1 \_\_\_\_\_ )

**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW QUESTIONS**

2. \*Are individual auditors allowed to select employer accounts to audit and/or convert non-audit assignments into audits?

Yes \_\_\_ No \_\_\_

If yes, does the State:

- a. Have standards to determine whether an auditor may select an employer account to audit and/or convert non-audit assignments into audits?

Yes \_\_\_ No \_\_\_

- b. Require that the auditor's reason for selecting an employer account for audit and/or converting non-audit assignments into audits, be recorded in the audit report?

Yes \_\_\_ No \_\_\_

3. Does the State have a system or procedure to assure that audit results (i.e., adjustments, changes, corrections, etc. to the employer's account file) are properly prepared?

Yes \_\_\_ No \_\_\_

VS: (Question 2 and 3 \_\_\_\_\_)

4. \*Following the completion of the audit, are employers contacted concerning the conduct of the audit?

Yes \_\_\_ No \_\_\_

If yes, describe the procedure in the narrative. If correspondence is used, obtain a sample if possible.

**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW QUESTIONS**

5. If procedures are automated, is a systems check performed every time a program is changed?

Yes \_\_\_ No \_\_\_

6. If any of the preceding evaluative questions were answered "no", does the State have a substitute or compensating control?

Yes \_\_\_ No \_\_\_ N/A \_\_\_

If yes, describe in the "Narrative" section following these questions.

VS:(Question 6 \_\_\_\_\_)



**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW NARRATIVE**

Question Number	Explanation Of "N/A" and "Compensating Controls" (when deemed necessary)
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Question Number	Answers to "if yes, describe", and "other":
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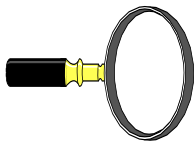


## SYSTEMS REVIEW

### *Review of Completed Work*

Ongoing supervisory review to ensure the quality of individual audits improves the quality of the entire Field Audit function. The review process may vary from reviewing all audits without exception to random sampling of audits in order to detect problem areas. The review may also take the form of a periodic Statewide review which measures the quality of the overall audit program. Utilization of these review processes helps the State meet the requirement of ESM 3691.

A system of post-audit verification also helps management assess the audit program by providing a method of feedback from audited employers on how the audit was conducted. Other feedback systems on quality trends may provide information to field audit supervisors with which they could compare audit quality between their office and other offices in the State.



At a minimum, field audits should be reviewed to assure they meet the requirements as set forth in the Field Audit section of the ESM. As well as meeting the ESM requirements, field audits should be reviewed to assure they meet the minimum level of documentation as defined in the section on Recorded Instructions.

In the narrative section following the questions, explain "other" responses, and describe "compensating controls". Identify the question being explained by referencing the number and section. If there is no review of completed audits, describe how the State ensures that accurate and complete field audits are being conducted.



For staff members involved in processing Field Audit documents, are the following components subject to some form of systematic review?  
**For Yes** answers, enter a "Y" in the appropriate column(s). For Yes answers, also enter "Y" in column 6. If there are no reviews, answer "N" for No in column 6. Column 6 is the only evaluative question.

Component	Type of review					
	*1 Supv	*2 Peer	*3 QR (Qual. Rev.)	*4 Support (Clerical)	*5 Other	6 Review Conducted? Y/N
a. That a pre-audit discussion was held?						
b. That the existence of the business was verified?						
c. That the ownership of the business was verified?						
d. That payroll record tests were performed?						
e. That a search for hidden wages was made?						
f. That 4 consecutive calendar quarters were audited?						
g. That a post-audit discussion was held?						
h. That money was collected or an explanation was documented?						
i. That adjustments were properly prepared?						

VS: (Question 6 )

\* Informational



**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW QUESTIONS**

7. Is a periodic Statewide review of completed field audits performed to ensure uniform quality throughout the State?

Yes, all audits \_\_\_ Yes, \_\_\_% of audits No \_\_\_

VS: (Question 7 \_\_\_\_\_ )

8. \* If field audits are reviewed, is a different review procedure used for large employers or other special audits?

Yes \_\_\_ No \_\_\_ N/A \_\_\_

If yes, describe the review procedure in the narrative section following these questions.

9. \* Are field audit supervisors informed about quality trends between their offices and other offices within the State?

Yes \_\_\_ No \_\_\_

10. If any of the preceding evaluative questions were answered "no", does the State have a substitute or compensating control?

Yes \_\_\_ No \_\_\_ N/A \_\_\_

If yes, describe in the "Narrative" section following these questions.

VS:(Question 10 \_\_\_\_\_ )



**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW NARRATIVE**

Question Number	Explanation Of "N/A" and "Compensating Controls" (when deemed necessary)
--------------------	---

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Question Number	Answers to "if yes, describe", and "other":
--------------------	---

\_\_\_\_\_





**FIELD AUDIT**

**PROGRAM REVIEW**

**SYSTEMS REVIEW QUESTIONS**

*Additional Controls*

1. \* Does the State have internal controls or quality assurance systems in the Field Audit function which this review failed to identify?

Yes \_\_\_ No \_\_\_

If yes, describe below.

2. \* Are there any exemplary practices for the Field Audit function?

Yes \_\_\_ No \_\_\_

If yes, describe below.



## **ACCEPTANCE SAMPLES**



**FIELD AUDIT**

**PROGRAM REVIEW**

**ACCEPTANCE SAMPLE INSTRUCTIONS**

***Purpose/Intent***

To assess the degree to which completed audits meet the requirements of the Employment Security Manual.

To assess the accuracy of posting audit results in the State's employer records.

***Scope***

The scope of the review will focus on audits completed in the first, second and third quarters of a calendar year.

***Universe***

There is one universe to be identified for the Field Audit Acceptance Sample:

1. All audits completed on Contributory Employers in the first, second and third quarters of the calendar year.
2. 60 completed audits will be selected.

***Timing/Frequency***

The samples will be selected once per calendar year.

The population of transactions will be identified after the end of the third quarter.

**ACCEPTANCE SAMPLE INSTRUCTIONS**

***Sampling Procedures***

The following describes the steps to be taken to build the universe for the samples:

1. Identify all contributory employers audited in the first three quarters of the calendar year. These should be the same employer accounts that are being reported as Total Audits on the ETA 581.
2. Select a sample of 60 cases.
3. The sample should be selected after the third quarter ends.

Appendix A describes what action needs to be taken for sampling in both manual and automated systems.

If the system is automated, the reviewer must work closely with the ADP unit to ensure a thorough understanding of what, when, and how the samples should be selected.

***Reviewing Samples***

Assemble the following information for each of the completed audits selected for review.

1. The complete audit report.
2. The supporting documentation.

**FIELD AUDIT**

**PROGRAM REVIEW**

**ACCEPTANCE SAMPLE INSTRUCTIONS**

*Reviewing Samples  
cont.*

3. Any adjustment forms needed due to changes resulting from the audit.
4. The account information on the State's computer files.

*Drawing Conclusions*

Using this information, answer the questions on the Acceptance Sample Questionnaire for each audit selected.

1. A pass/fail question has been added to the Acceptance Sample Questionnaire. "Was this assignment correctly identified as an audit in conformity with ETA audit policy as defined in the Employment Security Manual?" A "No" answer will fail the entire case. By answering no, the rest of the questions in the Acceptance Sample Questionnaire would not need to be answered. Note that cases failing under this criterion are a potentially serious problem as the data being reported on the ETA 581 are skewed. These failures will need to be written up as part of the findings of the Annual Report.
- 2 a. A score of 80 points or more on the nine (9) acceptance sample questions is required for a case to pass.

**FIELD AUDIT**

**PROGRAM REVIEW**

**ACCEPTANCE SAMPLE INSTRUCTIONS**

*Drawing Conclusions Cont.*

- b. If any of the cases score less than 80 points, it means that the reviewer must conclude that the audit is not an acceptable audit for this review.
- c. Of the 60 cases, if three or more are not acceptable, then the reviewer must conclude, that quality in the State's audits cannot be confirmed.

For all unacceptable cases, the reviewer must provide an explanation for the unacceptable case on the Acceptance Sample Explanation Sheet.

*Documentation*

All source documentation (gathered to review samples) must be kept until the completion and Regional Office approval of the Annual Report. Either hard copy documentation or (in some highly automated systems) the ability to recreate the identical information used in the review must be maintained.

NOTE: For each of the 60 Audit cases both a review of adherence to ESM requirements and (if the audit resulted in any change or adjustment to the information on the employer's account), a review of posting accuracy must be completed. It is important to verify that the posting of field audit adjustments is accurate in order to ensure the State is processing the information provided by the field audit unit. The purpose of TPS is not to find fault with any particular unit, but to identify strengths and weaknesses within a system regardless of what unit is responsible for the execution of the process.



**FIELD AUDIT**

**PROGRAM REVIEW**

**ACCEPTANCE SAMPLE INSTRUCTIONS**

For each case that passes the initial question of "Is this an Audit?", all Acceptance Sample questions must be answered, even for those cases where it is apparent early in the review that the case will not have sufficient points to pass. This is necessary to pinpoint any other areas of weakness regarding the quality of the State field audit program.

Furthermore, for question 5 in the Acceptance Sample, if no records or partial records are maintained by the employer, the auditor must document that in the report. The audit is not to fail simply because the employer does not maintain all of the records listed in question 5. Such an audit would only fail if the auditor did not document that necessary records were not maintained.

**FIELD AUDIT**

**PROGRAM REVIEW**

**ACCEPTANCE SAMPLE RATIONALE**

**Pass/Fail Initial Question**

**Prior to answering the Acceptance Sample Questionnaire to award points for the quality of the audit, the case should be reviewed to ascertain that it was correctly identified as an audit in conformity with ETA audit policy as defined in the Employment Security Manual (ESM). (Pass/Fail)**

**RATIONALE:** The ESM defines a field audit as well as identifying the scope. Some cases will not meet the criteria to be included in the Audit Universe (e.g., Assignments issued to resolve report and money delinquency, blocked claims and status assignments should not be routinely converted or expanded to audits). In all instances the cases will need to be reviewed to ascertain if they meet the criteria of an audit.

**DOCUMENTATION:** If the completed audit was a converted or expanded assignment issued to resolve report and/or money delinquency, blocked claim(s) or status issue it must contain documentation to identify the problem and/or conditions, not apparent when the assignment was made, that warrant the expansion or conversion of the assignment to include an audit.

**After determining the case passes the initial question of "Is this an Audit?", the following Acceptance Sample Questions will be used to assess the quality of the audits.**

**ACCEPTANCE SAMPLE RATIONALE**

The following questions assess the quality of completed Field Audits. For each question, a score and a rationale are given. The "Documentation" section presents examples of acceptable documentation to confirm that a particular audit activity has been performed. Work papers can range from checklists of actions taken and documents reviewed to a narrative by the auditor. The total score for a case of acceptable quality is 80.

- 1. A pre-audit discussion concerning the purpose of the audit must be held with the employer or an identified designated representative. (10 points)**

RATIONALE: A preliminary discussion must be held with the employer or an identified designated representative, in which the purpose of the visit and any pre-audit questions are discussed. At a minimum, the owner, a partner, or a corporate officer should be advised in person, by telephone or letter that an audit is to be performed and have the opportunity for a meeting.

DOCUMENTATION: The completed audit must record the name and title of the individual involved in discussion. If the employer designated a representative, record the name and title of the designated representative, and also record the name and title of the employer who designated the representative.

- 2. An acceptable explanation will be given as to how the auditor verified the existence of the business. (5 points)**

RATIONALE: Conducting the audit at the employer's place of business is the best way to verify its existence. Otherwise, the business entity must be verified in accordance with State audit procedures to ensure it is a bona fide operating establishment and not part of a fictitious employer scheme.

DOCUMENTATION: The completed audit must contain documentation of an on site visit, personal knowledge of the business, or other sources of verification in accordance with State audit procedures (e.g., business license, business advertisement in yellow pages).

**ACCEPTANCE SAMPLE RATIONALE**

**3. An acceptable explanation must be given as to how the auditor verified the ownership of the business. (5 points)**

**RATIONALE:** The current status of the business must be verified each time an audit is performed. If there has been a change of which the state was not aware, information on the change must be reported by the auditor in accordance with the state's policies and procedures.

**DOCUMENTATION:** The completed audit must contain confirmation that the auditor examined documents regarding partnership agreement, articles of incorporation, corporate charter, income tax returns and their findings (the type of income tax returns should be identified - e.g., 1120S - Sub-Chapter S Corp. 1040-Schedule C - Individual Ownership, 1065 - Partnership, 1120 – Corp.), business license, verification with the Secretary of State, or other sources of verification in accordance with state audit procedures.

**4. Tests of employer's payroll records must be performed to verify the accuracy and completeness of reported payroll. (25 points)**

**RATIONALE:** To establish that the auditor can rely on payroll data reported to the state, a minimum of four tests are required. To begin, the auditor must confirm reliance on the accuracy and completeness of the employer's payroll system, and this is done through Test "a" which requires verification that amounts paid were properly posted to the employer's payroll records. Then, as further checks on the accuracy of reported wages, Test "b" involves reconciliation of audited total payroll to reported total wages; Test "c" requires computation of total taxable payroll; and Test "d" involves reconciliation of total taxable payroll to reported total taxable wages. (Note that reconciliations may not always be exact due to tolerance levels, rounding and other state-established procedures. In these situations, the reviewer will determine whether state-established procedures have been followed. Minor mathematical or typographical errors discovered by the reviewer, such as errors that do not prevent identification of the employer or of potential UI claimants, should not cause the audit to fail, however, they should be noted in TPS findings.)

These tests will not be possible for employers or employing units that have not reported wages or have not registered. Procedures for auditing such employers are described at the end of Question Four.

**DOCUMENTATION:** The audit must include documentation which confirms that each test was conducted and supports conclusions drawn from the tests. Any discovered discrepancies greater than state-established tolerance levels between reported and audited payroll must be documented, reconciled and properly adjusted in order to pass Question Four. Such documentation could take the form of an annotated calculator tape, or include copies of records, or consist of work papers, or be notations on a computerized audit program.

**ACCEPTANCE SAMPLE RATIONALE**

**Test a. Verification that amounts paid were properly posted to the employer's payroll records.**

There are two methods to verify that payroll was properly posted to the employer's payroll system.

Provide documentation showing that the audit verified the gross payroll by adding all payments of the individual gross wages from source document(s) (e.g., paper or electronic check stubs, cash disbursements journal, check register, etc.) for the quarter and compared that total to the total gross wages reported on the state's records. Documentation may be in the form of an annotated calculator tape or computer printout showing quarter or year and source documents used. Comparison may be for a single quarter (or more) or annual.

**or**

Provide documentation showing that the auditor verified at least one employee's wages for one quarter from evidence of payment through to the employer's copy of the quarterly contribution and wage report or to the wages posted in state records. If the auditor is supplied with detailed wage information from state records prior to conducting the audit, then the wage data of the individual must be traced through the employer's payroll system to the state's records for that quarter.

Most basic evidence of payment, such as timecards, check stubs, check registers, cancelled checks or copies of automated clearing house (ACH) transactions should be used when available. If such basic evidence is not available, other records may be utilized, but this situation must be documented in the audit report. Other acceptable documents include paper and cash payment vouchers. If the employee is paid by direct deposit, evidence may include employee earnings statements, electronic check stubs, records of direct deposit, or electronic fund transfer tracking numbers.

Records used in the audit that show only net amounts (e.g., cancelled checks, non-detailed check stubs, records of direct deposit, or ACH transactions showing only net amounts) must be reconciled for at least one employee; with supporting evidence of the gross wage amounts paid to the employee such as found in individual payroll or earnings records.

Work paper(s) for each individual traced must contain the identity of the record examined, name, SSN (all or part), amount of pay, and dates of payments.

**Test b. Reconciliation of audited total payroll to reported total wages.**

Work paper(s) must show that the auditor compared quarterly totals of payroll records for all employees to the total wages on the employer's copy of the UI contribution report, or to the amount posted to the state's records. Payroll records used for this test could be in the form of individual earnings records, payroll journals or ledgers, payroll summaries, W2s, W3(s), 941s or 940s. For example: Each quarter's payroll summaries are totaled for the entire year, along with a comparison of the total gross annual payroll to the W2 totals. For an individual's trace, if W2s are used, the totals for the remaining, untested quarters for the employee traced in Test "a" must be added and reconciled with the employee's W2.

**ACCEPTANCE SAMPLE RATIONALE**

The comparison of audited total wages to reported total wages may be annual or by quarter, and must include the entire audit test period. If discrepancies are identified which cannot be explained, the auditor will perform an analysis for each quarter in the audit test period.

Work paper(s) for the reconciliation must include identity of the payroll records examined, calculation of total payroll, and an explanation of variances/differences.

**Test c. Computation of total taxable payroll.**

Work paper(s) must include identity of the payroll record used in the calculation and also record the calculations to verify the total taxable payroll. This computation may be by quarter or annual, and must include the entire audit test period. Annual records such as W2s that have been validated in Tests “a” and “b” may be used for the computation i.e., the total gross wages from the W2s equal the total of the gross annual wages from the source used in Test “b”.

**Test d. Reconciliation of total taxable payroll to reported total taxable wages.**

The reconciliation can be performed by comparing the verified total taxable payroll figure arrived at in Test “c” to total taxable wages recorded on the employer's copy of the UI contribution report, or to the amount posted to the state's records. The comparison may be by quarter or annual and must include all quarters of the audit test period. If discrepancies are identified which cannot be explained, the auditor will perform an analysis for each quarter in the audit test period.

Work paper(s) for the reconciliation must contain summary calculations and an explanation of variances/differences.

**AUDITS OF EMPLOYERS WITH NO REPORTED WAGES**

Audits of employers/employing units who have no wages reported or have not registered are acceptable under certain conditions. Approval to conduct such audits must follow guidelines found in Part V, Section 3689 of the ESM, and should contain explanation for the decision to conduct the audit.

In these situations, the auditor must create quarterly tax reports, sometimes using sources such as blocked claims affidavits, lists of gifts, records of cash payments, check stubs, time sheets, payroll deductions taken as expenses on income tax returns, evidence of cash bank withdrawals if employees were paid in cash, evidence of electronic transfers along with any accounting records available such as W2s, 1099 forms, income tax returns, individual payroll or earnings records. To qualify as an “audit”, evidence of the payment of wages must be documented in audit work papers.

The audit must also contain detailed documentation such as calculator tapes or spreadsheet details showing the methodology followed in preparation of the contribution and wage reports or annual adjustment forms. Such documentation must include copies or descriptions of records used by the auditor to determine wage for each

**FIELD AUDIT**

**PROGRAM REVIEW**

employee as well as evidence of the auditor's computations of total wages, taxable wages, and contributions due.

FIELD AUDIT

PROGRAM REVIEW

**ACCEPTANCE SAMPLE RATIONALE**

**5. Other employer records must be examined to search for misclassified workers and hidden wages. (25 points)**

**RATIONALE:** Misclassified workers and hidden wages are the most significant areas of noncompliance among registered employers. Auditors must examine all appropriate documents or records of original entry as are available or maintained by employer to determine whether non-wage payments to acknowledged employees were properly classified and whether persons not in covered employment who received payments for services were properly classified. TPS has divided employer records into four types that will be examined for the discovery of hidden wages or misclassified workers. If no records or partial records are maintained by the employer, the auditor must document that in the report. The audit is not to be penalized when the employer does not maintain all of the records described on the next page.

The auditor must examine the nature and extent of the employer's business to identify and resolve any issues of noncompliance. The nature of the business may identify a type of business with a historical pattern of noncompliance. In this case, the nature of the business may alert the auditor to perform a detailed investigation of specific accounting records.

Likewise, the extent of the business may indicate multi-State employment, and may require that the auditor's investigation ensure the employer reported employees to the appropriate State.

**DOCUMENTATION:** There are, at a minimum, four types of employer records that must be examined. Each should be considered as a separate source of potential information. Included in the completed audit file should be auditor-prepared documentation that is the principal record of the four separate examinations for this test. The documentation must present the evidence discovered through the test.



**ACCEPTANCE SAMPLE RATIONALE**

a. The essential test which must be conducted and its required documentation is described below. If the records deemed essential/necessary to conduct the audit are kept by the employer they must be examined by the auditor. If no records or partial records are maintained by the employer, the auditor must document that in the report. There are at a minimum four types of employer records that must be examined (i.e., contract labor, cash disbursements, detailed general ledger and miscellaneous reports and accounts). The audit is not to be penalized when the employer does not maintain all of the records described below.

- (1) Examination of the records of contract labor. These records include, but are not limited to: 1099s MISC and 1096 summaries, and master vendor files.
- (2) Examination of the cash disbursements. These records include, but are not limited to: cash disbursements journal, petty cash journal, check register and canceled checks/check stubs.
- (3) Examination of the detailed general ledger and, if available, any directories of subsidiary ledgers such as a chart of accounts which may lead to other sources of misclassified workers and hidden wages.
- (4) Examination of miscellaneous reports and accounts. These records include, but are not limited to: State tax returns, federal income tax returns, financial Statements, corporate minutes and records, and federal adjustment reports.

b. Potential outcomes of the test are (1) no suspicion of additional wages, (2) suspicion of additional wages, and (3) payment(s) of wages not previously identified. If, through one or more of the tests performed, wages are suspected or found, the audit papers must contain such information.

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**PROGRAM REVIEW**

**ACCEPTANCE SAMPLE RATIONALE**

- (1) For Part I (examination of records of contract labor): If there is no suspicion (payment not suspected to be wages) or the payment was identified and examined elsewhere in the audit, documentation should contain classification of categories of payment (e.g., 1099s MISC, and/or 1096, and/or master vendor files) and a brief description of why there was no suspicion of misclassified workers and/or hidden wages.

For Parts (2), (3), and (4): If there is no suspicion (payment not suspected to be wages) or the payment was identified and examined elsewhere in the audit, the documentation will contain a checklist or summary Statement of accounts reviewed and findings.

- (2) If, initially, wages were suspected, but payment was subsequently not found to be wages, documentation will contain the number of individuals, the labor categories examined which turned out to be exempt or non-subject, explanation of evidence that payments do not constitute wages, and conclusions.
- (3) If payment to individual(s) was found to constitute wages, work paper(s) for each individual found must contain the audit period, name of payee, total quarterly amount, explanation of evidence that payments were wages, and findings. Also acceptable is a summary Statement that the suspect amount was found and can be traced to a specified account, referencing another work paper. Adjustment reports can be used as part of the supporting documentation when the reviewer can trace each individual discovered to the resulting increases and decreases in total wages and taxable wages. Adjustment reports must be supported by narrative or other documented sources before they can be used as part of the supporting evidence to wage changes.

**ACCEPTANCE SAMPLE RATIONALE**

**6. The audit must cover four consecutive calendar quarters or an acceptable explanation must be provided.** (5 points)

RATIONALE: To preserve the integrity of the audit program and to enhance the capability of the auditor to verify taxable wages, the scope of the audit must be at least four consecutive calendar quarters. A tolerance level for error in reporting taxable wages and/or tax must have been established by the State as a guide for justification in extending an audit beyond the four quarter scope. A State may establish reasons other than monetary for expanding an audit in which case the auditor will record the reason in the audit report.

DOCUMENTATION: When the auditor elects to extend the audit, the audit file must contain an explanation for the expansion which conforms to the State's tolerance level guidelines. If the auditor elects to disregard the established tolerance guidelines, an explanation will be given in the audit report. When the audit is less than four quarters, the completed audit file must also contain an explanation.

**7. A post-audit discussion concerning the results of the audit must be held with the employer or an identified designated representative.** (10 points)

RATIONALE: Upon completion of the audit, a meeting must be held to discuss the audit findings and conclusions. Any discrepancies or issues of non-compliance must be discussed with the employer or designated representative who has authority to make changes in the organization's reporting procedures. This is also a time when the auditor must inform employers of their rights and responsibilities regarding the audit. If the auditor does not follow this procedure, an acceptable explanation must be given.

DOCUMENTATION: The completed audit must contain the name, title, and telephone number of the individual involved in the post-audit discussion.

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PROGRAM REVIEW

**ACCEPTANCE SAMPLE RATIONALE**

**8. If the audit resulted in the employer owing additional tax, the auditor either must collect it or provide an acceptable explanation why the collection was not accomplished. (5 points)**

RATIONALE: The auditor must contact a person authorized to make payment for the business being audited and attempt to obtain payment of all contributions found to be due as a result of the audit. If the auditor is unable to collect, an explanation must be provided in the audit report.

If the audit under review is a no-change audit and question 8 is not applicable, the reviewer will answer the question "NA" and the points will be awarded as though the question had been answered "Yes". If the audit is a change audit resulting in additional tax due and State policy does not require the auditor to attempt collection, the reviewer will answer question 8 as "NA" and system will award the points. However, record of such State policy must be documented and contained in the TPS systems review narrative.

DOCUMENTATION: The completed audit file must record the amount collected. If the auditor does not collect the balance due, an explanation as to why the collection was not accomplished must be recorded in the completed audit file.

**9. If discrepancies or unreported wages and tax were found, adjustments must be made in accordance with the completed audit. If the audit is being appealed, adjustment reports must be made in accordance with the completed audit. (10 points)**

RATIONALE: Establishing a system to ensure the proper accounting of audit results is an important component of a State's tax operation. The State has a fundamental obligation to guarantee the accuracy of the posting to ensure the employer is given the correct tax rate; subsequent billings are correct and that the collection unit is provided with timely information to process indisputable legal documents.

**FIELD AUDIT**

**PROGRAM REVIEW**

**ACCEPTANCE SAMPLE RATIONALE**

By assessing the accuracy of the posting of Field Audit adjustments, the reviewer will have sufficient information to confirm the existence of a system which assures that audit results are properly posted. If discrepancies are found, the reviewer will note this in the Annual Report.

Posting errors of non-material nature such as typographical mistakes, minor misspelling, leaving off middle initials, or other errors that generally do not influence proper administration of an employer's account, will not result in the loss of points for this question. In cases of uncertainty, benefit of the doubt should be given. Points will also be granted, if discrepancies or unreported wages and tax were found that did not require adjustment according to established State procedures.

If the audit under review is a no-change audit and question 9 is not applicable, the reviewer will answer the question "NA" and the points will be awarded as though the question had been answered "Yes".

**DOCUMENTATION:** Adjustments to employer's account, quarter and year, total wages, taxable wages, and tax/contribution due, resulting from the completed audit must be posted accurately.

In addition, if the audit is being appealed and actual posting is not made, the completed audit file must contain a copy of the adjustment forms when prepared manually. The form(s) must record title of report, the audit period, name and account number of employer, and findings.

If computer-assisted, a printout of the adjustments which includes the audit period, name of employer, and findings will be sufficient documentation.

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**ACCEPTANCE SAMPLE QUESTIONNAIRE**

**The initial question Pass/Fail, must be a Pass, before the audit needs to be reviewed on Questions 1 thru 9. (For details, see the Initial Question Rationale)**

**If answers to Questions 1 thru 9 are not documented in the completed audit file, then the answers to those questions must be "No." (For details on the level of required documentation, see Acceptance Sample Rationales.)**

**Pass/Fail** Was the assignment correctly identified as an audit in conformity with the ETA audit policy as defined in the ESM?

Pass \_\_\_ Fail \_\_\_

1. Was a pre-audit discussion, concerning the purpose of the audit, held with the employer or an identified designated representative? *(Was the name and title of the employer or designated representative documented? If a representative was designated, was the name and title of the designator documented?) (10 points)*

Yes \_\_\_ No \_\_\_

2. Was an acceptable explanation documented as to how the auditor verified the existence of the business? *(e.g., audit performed at the employer's place of business, partnership agreement, personal knowledge, business license, telephone directory, etc.) (5 points)*

Yes \_\_\_ No \_\_\_

3. Was an acceptable explanation documented as to how the auditor verified the ownership of the business? *(e.g., partnership agreements, articles of incorporation, corporation charter, income tax returns, business license, verification with Secretary of State) (5 points)*

Yes \_\_\_ No \_\_\_

**FIELD AUDIT**

**PROGRAM REVIEW**

**ACCEPTANCE SAMPLE QUESTIONNAIRE**

4. Does the audit contain documentation to show that the following four payroll record tests were performed: (25 points)
- a. Verification of gross payroll posting system? Yes \_\_\_ No \_\_\_
  - b. Reconciliation of total payroll to total wages? Yes \_\_\_ No \_\_\_
  - c. Computation of total taxable payroll? Yes \_\_\_ No \_\_\_
  - d. Reconciliation of total taxable payroll to total reported taxable wages? Yes \_\_\_ No \_\_\_

**Note: You must answer "Yes" to a, b, c and d to score 25 points.**

5. Does the audit documentation indicate: (a) that the following employer records, if available, were examined to search for misclassified workers and hidden wages, and (b) the findings from the examinations conducted in the audit? (25 points)
- a. Were the following employer records, if available, examined:
    - (1) Records of contract labor
    - (2) Cash disbursements
    - (3) Detailed general ledger
    - (4) Miscellaneous reports and accountsYes \_\_\_ No \_\_\_

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

- b. Did the audit contain the findings from the records examined:
- (1) If payment was not suspected to be wages or was examined elsewhere in the audit, the audit must contain a checklist or summary Statement of accounts reviewed and findings.
  - (2) If payment was suspected, but found not to be wages, the audit must contain the number of individuals examined, labor categories examined, and explanation of evidence that payment does not constitute wages.
  - (3) If payment was found to be wages, the audit must contain for each individual: the amount paid, name of payee, total quarterly amount, explanation of evidence and findings. A summary Statement that can be traced to specific accounts, referencing other work papers can also be used. Adjustment reports can act as supporting documents if each individual discovered can be traced to the resulting changes in wages.

Yes \_\_\_ No \_\_\_

**Note: You must answer "Yes" to both a and b to score 25 points.**

6. Were four consecutive calendar quarters audited or was an acceptable explanation documented when the audit is less than four quarters or expanded beyond four quarters?  
(5 points)

Yes \_\_\_ No \_\_\_



**FIELD AUDIT**

**PROGRAM REVIEW**

**ACCEPTANCE SAMPLE QUESTIONNAIRE**

7. Was a post-audit discussion concerning the results of the audit held with the employer or an identified designated representative, and documented in the field audit? *(The name, title, and telephone number of the individual involved should be recorded.) (10 points)*

Yes \_\_\_ No \_\_\_

8. If the audit resulted in the employer owing additional tax, did the auditor either collect it and record the amount collected or document an acceptable explanation why the collection was not accomplished? *(5 points)*

Yes \_\_\_ No \_\_\_ N/A \_\_\_

9. If discrepancies or unreported wages and tax were found or a credit is established, was the adjustment (monetary or non-monetary) posted in accordance with the State requirements. If the audit is under appeal, adjustment reports should be made in accordance with State policy. *(10 points)*

Yes \_\_\_ No \_\_\_ N/A \_\_\_





*TAX PERFORMANCE SYSTEM  
Field Audit  
Sample Explanation Sheet*

*State:* \_\_\_\_\_ *Period Covered:* \_\_\_\_\_ *Date:* \_\_\_\_\_ *Reviewer:* \_\_\_\_\_

*Sample Type:*            *Acceptance*            *Expanded*

<i>Case Number</i>	<i>Employer Identification Number</i>	<i>Explanation</i>

