

TAX PERFORMANCE SYSTEM

ET HANDBOOK NO. 407 4th Edition

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TAX PERFORMANCE SYSTEM

Operations Handbook 407
4th Edition

United States Department of Labor

TAX PERFORMANCE SYSTEM

OPERATIONS HANDBOOK 407
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CHAPTER I

TAX PERFORMANCE SYSTEM OVERVIEW

COMPONENTS

INTRODUCTION

BACKGROUND

TPS POLICY

REGIONAL ROLE

OVERVIEW OF HANDBOOK

TAX PERFORMANCE SYSTEM OVERVIEW

INTRODUCTION

The Tax Performance System (TPS) is intended to assist State administrators in improving their Unemployment Insurance (UI) programs by providing objective information on the quality of existing revenue operations. TPS will also serve to help the U.S. Department of Labor carry out its oversight, technical assistance, and policy development responsibilities.

The TPS program is a part of the Department's "UI Performs", a comprehensive performance system in which the States and Federal government work together as partners to strengthen the UI system. Other UI measurement programs such as Benefit Accuracy Measurement and Performance Measurement Review are also a part of this system. One of the primary goals of the system is to achieve continuous improvement of overall performance quality.

This handbook provides the standard instructions for operating the Core TPS program. This chapter is intended as an executive summary of TPS background and policy. Chapter II describes the approach for conducting reviews, while subsequent chapters contain detailed instructions for review of each major tax function. Appendices containing reference material are included. An on-line tutorial has also been created at: <http://ows.doleta.gov/tps/>

TAX PERFORMANCE SYSTEM OVERVIEW

BACKGROUND

In 1983, the Department, upon the recommendation of an interagency Benefit Payment Oversight Committee, decided to implement a quality control (QC) program for the UI system administered by the State Employment Security Agencies (States). The first component, Benefits Quality Control (BQC), now known as Benefit Accuracy Measurement, was implemented in all States except the Virgin Islands.

Before QC became mandatory, the Department undertook a thorough public policy review of the intended design. The lasting result of this review was the development of "consensus principles" by major parties with an interest in the UI program, which the Department not only accepted but also reflected explicitly in the QC regulation.

State Input

In 1988, the Department began the development of TPS. A small Federal workgroup was established, assisted by tax specialists from several States working under Intergovernmental Personnel Act (IPA) arrangements.

Over the years, major design and many subsequent improvements were initiated and produced by these State tax experts from Florida, Alabama, Illinois, Minnesota, Texas, Kansas, New Mexico, Colorado, Utah, Arizona, California, Oregon, and Washington. The work group also consulted extensively with the public and outside interest groups. Numerous States were visited to inform them of the work in progress and obtain reaction to the design approaches and conclusions. In addition, Federal Register notices and UI Program Letters were published to solicit comments on the TPS design. Discussions were also conducted by a contracting firm with a panel of State tax experts and administrators from Connecticut, New York, the District of Columbia, Florida, South Carolina, Wisconsin, Kansas, Missouri, Oklahoma, North Dakota, California, and Washington.

TAX PERFORMANCE SYSTEM OVERVIEW

Testing the Design

In 1990, TPS was pretested in eight States (Massachusetts, Pennsylvania, Kentucky, Oklahoma, Colorado, Illinois, Hawaii, and Alaska), and pilot tested in eight States (New York, Maryland, the District of Columbia, South Carolina, Wisconsin, Iowa, Montana, and California) during 1991 - 1992. Revisions were made to the design based upon the feedback of those involved in testing the TPS design.

Phasing in the Program

Effective 1993, a revised operating manual was released and 49 States began to voluntarily implement the program. A video describing the program was released and four large-scale training sessions were held to assist in implementation. Unemployment Insurance Program Letter number 32-94 announced full implementation as a two-phased approach to begin with the revised ETA 581 taking effect January 1995 and the balance of TPS to become mandatory January 1996 under the Secretary's existing statutory authority to require reports and operations data from the States.

TPS POLICY

The following policy decisions were reached based on pilot testing, and input and comments from States and other interested parties.

Tax Functions Examined

TPS will review the following major tax functions:

- . **Status Determination**
- . **Cashiering**
- . **Report Delinquency**
- . **Collections**
- . **Field Audit**
- . **Account Maintenance.**

TAX PERFORMANCE SYSTEM OVERVIEW

Methodologies

The dimensions of quality in UI tax operations are accuracy, timeliness, and (in some instances) completeness. Two methodologies are utilized (See Figure I-1).

1. Computed Measures - consist of reporting the data about UI tax operations with the bulk of information received from the ETA 581 reports. These measures, based on reported aggregate information, are indicators of timeliness and completeness with which UI tax transactions occur. States report a quarterly series of data elements, which the TPS data system uses to automatically calculate the computed measures. Data are provided to the TPS reviewers so that they may factor them as part of the assessment of each tax function.

Under separate development is a methodology to validate report data to ensure that the data mean the same thing in every State.

2. Program Reviews - consist of Systems Reviews which examine tax systems for the existence of internal controls, and Acceptance Samples which examine small numbers of transactions to verify the effectiveness of the internal controls in producing accurate outputs. If more extensive review is deemed necessary, this handbook contains instructions for pulling a second small sample as well as pulling large, representative samples ("Expanded Samples") to determine a specific error rate.

TAX PERFORMANCE SYSTEM OVERVIEW

Figure I-1
 TAX PERFORMANCE SYSTEM

REVIEW METHODOLOGIES

TAX FUNCTION	COMPUTED MEASURES	PROGRAM REVIEW
		Systems Review/ Acceptance Sampling
STATUS DETERMINATION	X	X
CASHIERING		X (Estimation Sampling)
REPORT DELINQUENCY	X	X
COLLECTIONS	X	X
FIELD AUDIT	X	X
ACCOUNT MAINTENANCE		X

TAX PERFORMANCE SYSTEM OVERVIEW

Overview of Steps TPS Review includes the following:

- . Collect and examine computed measures to identify trends in the timeliness and completeness of State operations.

- . Conduct a review to ensure that internal control/quality assurance systems are in place (Systems Review).

- . Draw a small sample of outputs or transactions - 60 per tax function (Acceptance Sampling).

- . Review the quality of the outputs against uniform standards of quality (Acceptance Sample Questionnaire).

- . If two or fewer errors or defects are found in the acceptance samples, a judgment is made that the State internal controls are effective in producing quality outputs.

- . Draw conclusions from Computed Measures, Systems Reviews and Acceptance Sample findings and prepare recommendations for improvement.

TAX PERFORMANCE SYSTEM OVERVIEW

**Organizational
Placement**

State management, in consultation with the Regional Office (RO), should determine the organizational placement of TPS. The unit should be placed so as to ensure integrity and acceptance of TPS data and findings.

Regulations (20 CFR Part 602.20) requires that the program be "...independent of, and not accountable to, any unit performing functions subject to evaluation by the...unit." The Regulation would prohibit TPS staff from reporting to a manager whose sole or predominant responsibility is to manage an area being evaluated by TPS.

Staffing

One staff year per State has been allocated in the Grants to States to perform the TPS review. This effort can be completed by one full time person or divided among several staff on a part time basis.

A comprehensive knowledge of the UI tax system is essential in completing an TPS review. Skills in planning and conducting reviews of State systems and procedures are also necessary. The ability to communicate effectively through presentation of findings and recommendations to line staff and management is critical in fostering improvements in the State tax operation.

TAX PERFORMANCE SYSTEM OVERVIEW

Major Tasks

Major tasks include the following:

- . Conducting meetings with management and line staff to discuss the project and to update on progress and findings.
- . Developing annual workplans to conduct the TPS review including coordination of tax and ADP staff involvement
- . Performing examinations of State internal controls and verifying their existence through direct observation
- . Selecting and reviewing samples of outputs from the various tax functions to test the effectiveness of internal controls
- . Evaluating computed measures to determine trends over time
- . Preparing annual reports of findings, conclusions, and recommendations for program improvement. Ensuring that sample data is entered into the SUN system.
- . Development and implementation of program improvement plans based on strategy arrived at by State and Region
- . Potential travel to other States to assist in conducting fourth-year Federal TPS reviews (subject to State and RO agreement).

TAX PERFORMANCE SYSTEM OVERVIEW

**Sequencing
Reviews**

TPS reviews are conducted on a cyclical basis. Complete reviews of State internal controls take place every four years unless problems have been discovered or program changes have been made within the last year. To confirm that the State's controls are working effectively and producing accurate outputs, samples of each tax function's outputs are drawn and examined every year. (Tax Rates are excluded from the yearly review and subject to a minimum of one review every four years if they, and related functions of Report Processing and Benefit Charging pass the previous year's review; and no program changes have been made. If Report Processing and/or Benefit Charging fail a subsequent review, the Rate sample must be conducted as usual the following year.)

**Technical
Assistance**

TPS design encourages extensive technical assistance. As the TPS reviewer discovers and confirms areas of strengths and weaknesses, State management can identify internal problems and take corrective action immediately when remedies are apparent; or later, after interrelated factors are analyzed.

Participation in the reviews by experts from other States and Federal staff, and the subsequent exchange of ideas between them and staff from the host State, can result in secondary benefits to both parties.

**Automation of
Data Collections**

TPS provides for the use of automation in several areas to assist in data collection. Detailed specifications are provided to States for selecting the various samples and reporting data elements used in functional indicators. Information gathered as a result of the review is collected and entered into the State computers currently being used by Benefit Accuracy Measurement system, and for processing the Required Reports. TPS software developed by the National Office is used to assist in the analysis of results.

TAX PERFORMANCE SYSTEM OVERVIEW

REGIONAL ROLE

The Regional Office (RO) staff act as liaisons between the National Office and the TPS reviewer. The RO will work with the TPS reviewer during all phases of the review process to answer questions and offer technical assistance. The RO is responsible for ensuring that all aspects of the review process are being conducted properly and timely. This can consist of requesting a workplan for the upcoming year and requiring progress reports during the year to ensure the work is being completed on schedule.

REGIONAL RESPONSIBILITIES DURING ONGOING REVIEWS

- . Approving requests for waivers of Systems Reviews.
- . Ensuring state meets guidelines if changing sampling periods.
- . Allowing the use of “Not Applicable” responses.
- . Allowing the use of “Other” responses (Compensating Controls).
- . Ensuring reviewer is adhering to workplan.
- . Ensuring TPS Annual Report is properly completed and accurate.

In its capacity as liaison between the National Office and the state, the RO is the primary source of guidance for interpreting TPS policy and procedures. State will direct programmatic questions and problems to the RO. Questions regarding ADP issues such as sampling frames, extraction routines and computed measures should be directed to the National Office hotline: 1-800-473-0188.

TAX PERFORMANCE SYSTEM OVERVIEW

As described in the “Sequencing Reviews” section, every fourth year, the RO coordinates a review utilizing home state and neighboring state staff. They also organize and participate in reviews and sampling, and are responsible for coordinating the development of the TPS Annual Report.

REGIONAL RESPONSIBILITIES DURING FOURTH YEAR REVIEWS

- . Organizing a team to conduct the review.
- . Coordinating and reviewing completed Systems Reviews.
- . Coordinating and reviewing completed Acceptance Samples.
- . Coordinating development of the Annual Report.

Text referring to the RO will be italicized in the remainder of the handbook.

TAX PERFORMANCE SYSTEM OVERVIEW

OVERVIEW OF HANDBOOK

The following chapters of this Handbook cover these topics:

General Procedures. Chapter II presents the general instructions for conducting the TPS Review, including preparation, conducting the review, and reporting findings.

Function-specific Procedures. Chapters III-VIII present detailed instructions for conducting the Systems Review, reviewing the Acceptance Samples, examining the Computed Measures, and for drawing conclusions on the strengths and weaknesses of each tax function. (As shown on Figure I-1, the type of methodology employed differs from function to function.)

Appendices. Reference materials supporting the review are included as appendices. They include: sampling specifications, computed measures specifications, the TPS glossary, an example of an Annual Report, the Employment Security Manual section regarding Field Audits, and data entry instructions.

CHAPTER II

GENERAL PROCEDURES

COMPONENTS

INTRODUCTION

PLANNING FOR REVIEW

CONDUCTING SYSTEMS REVIEWS

SAMPLING

CONCLUDING REVIEW

INTRODUCTION

The TPS review is designed as a cost effective means to evaluate the State's UI tax operations. This chapter describes the general procedures to be followed in conducting the TPS review, and each subsequent chapter contains the specific data collection instruments to be used for the review of each tax function. The following major tax functions will be reviewed:

Tax Functions Examined

Status Determination

Cashiering

Report Delinquency

Collections

Field Audit

Account Maintenance

Two different methodologies are provided for evaluating the State tax operation. They can be used in concert with each other in order to comprehensively assess the strengths and weaknesses of each tax function. The methodologies are:

Methodologies

- 1 Computed Measures**
- 2 Program Reviews**
 - Systems Reviews**
 - Acceptance or Estimation Sample**

Figure II-1

TPS ASSESSMENT METHODS OVERVIEW

	Computed Measures	Program Reviews	
		Systems Reviews	Samples (60) *Cashiering sample 500
STATUS DETERMINATION	New determinations within 90 days New determinations within 180 days Successor determinations within 90 days Successor determinations within 180 days	Accuracy of new determinations Accuracy of successor determ. Accuracy of inactiv./terminations	New determinations Successor determinations Inactiv./terminations
CASHIERING	NA	Accuracy of employer remittance processing Accuracy of posting	Employer remittances (*Estimation Sample 500)
REPORT DELINQUENCY	Timely reports Reports secured within 90 days Reports secured or resolved within 180 days	Accurate identification of delinquent employers Take all reasonable actions to secure/resolve rpt del	Accounts with delinquent reports
COLLECTIONS	Timely payments Uncollectible Accounts receivable	Take all reasonable actions to manage accounts receivable	Accounts receivable
FIELD AUDIT	Change in total wages Contributory employers audited Total wages audited (annualized)	Ensure that audits meet ESM requirements	Completed audits
ACCOUNT MAINTENANCE	NA	Accuracy of contrib.rpt processing Accuracy of billings Accuracy of credits/refunds Accuracy of benefit charging Accuracy of experience rating	Active contributory accounts Contrib./reimb. accounts receivable Accounts payable credits/refunds Accounts due benefit charges Employer experience ratings

Computed Measures

Specific indicators have been developed for the Status Determination, Report Delinquency, Collections, and Field Audit functions. Data elements for these indicators will be gathered from the current system used by states to electronically report quarterly data to the U.S. Department of Labor.

These measures will be automatically transformed into indicators of timeliness and completeness by the TPS ADP system and provided to the TPS reviewer to aid in the final evaluation of state tax operations.

Computed Measures

Status Determination

- . % New determinations made within 90 days
- . % New Determinations made within 180 days
- . % Successor Determinations made within 90 days
- . % Successor Determinations made within 180 days

Report Delinquency (contrib. & reimb.)

- . % Timely Reports
- . % Reports Secured within 90 days
- . % Reports resolved within 180 days

Collections (contrib. & reimb.)

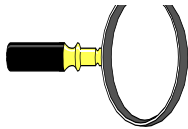
- . % Timely Payments
- . % Receivables declared uncollectible
- . % Accounts Receivable

Field Audit

- . % Total wage change
- . % Contributory employers audited
- . % Total wages audited (annualized)

The timeliness and completeness findings from these indicators should be presented along with the findings about accuracy from program reviews when evaluating the quality of a particular tax function in the Annual Report.

Program Reviews



The Program Review methodology is designed to alert the TPS reviewer to the tax functions that are producing inaccurate, untimely, or incomplete outputs. This is done as a two-fold process: Systems Review and Acceptance Sampling.

Systems Review

To ensure accurate and timely tax operations, each state has built in various internal controls and quality assurance systems such as edits and checks, reviews of completed work and audit trails. However, such systems are not absolute. The systems themselves could be flawed, or stated policy may not always be followed. Therefore, the TPS review begins with an extensive examination of the state's controls, verifying their existence and use, documenting areas of potential "risk" where controls are weak or non-existent.

Acceptance Sampling

To confirm that state controls are producing the desired outputs (such as accurately determining the status of potential employers, properly resolving delinquent reports, and following state procedures when collecting accounts receivable), small "acceptance" or "discovery" samples are examined for each tax function. Due to the small number of samples, this test is intended simply to signal potential problem areas in those tax functions where 3 or more cases are found to fail. It indicates - with a 90% confidence level - that the particular tax function has an error rate of 8.8% or more. For more details or to determine a specific level of error, the reviewer may draw a larger sample (see Appendix A).

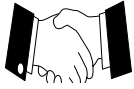
Review Steps

To conduct the TPS Review, the reviewer will need to complete four major steps: Plan for the Reviews, Conduct Systems Reviews, Acceptance Sampling, and Conclude Reviews (see Figure II-2). The following sections of this chapter provide directions for the review steps. Chapters three through eight provide TPS data collection instruments for the review of each major tax function.

Figure II-2

OVERVIEW OF REVIEW STEPS

I. PLANNING FOR REVIEWS



- a. Review All TPS Materials
- b. Ensure that Records are Retained
- c. Schedule and Conduct Introductory Meetings
- d. Lay Groundwork for Reviews and Computed Measures
- e. Develop Workplans for Reviews

II. CONDUCTING SYSTEMS REVIEWS



- a. Begin Reviews
- b. Gather Information
- c. Verify the Source of Information
- d. Complete the Systems Review Forms
- e. Complete the Program Review Chart (preliminary)

III. ACCEPTANCE SAMPLING



- a. Select Samples
- b. Replace Missing Cases (if needed)
- c. Review Samples
- d. Post Coding Sheets
- e. Prepare Preliminary Findings
- f. Select and Examine Expanded Samples (if needed)
- g. Sampling by Exception

IV. CONCLUDING REVIEWS,



- a. Assess Computed Measures' Findings
- b. Complete Program Review Chart
- c. Prepare Draft Report
- d. Conduct Exit Interview
- e. Prepare Annual Report

I. PLANNING FOR REVIEWS



a. Review All TPS Materials

To complete the Program Review, the reviewer must be thoroughly familiar with the TPS review procedures. Knowing the required review steps of Computed Measures, Systems Review, and Acceptance Sampling will allow the reviewer to conduct all necessary activities without undue delays. Understanding the review questions is also essential to building reviewer credibility. If the reviewer is not knowledgeable, respondents may think their time is being wasted and be less cooperative.

The reviewer should thoroughly examine the materials in this handbook and other TPS background materials before contacting the state UI tax staff regarding the review. *If there are any questions, please call the Regional TPS staff for clarification.*

b. Ensure that Records are Retained

Upon familiarization with the TPS design, the reviewer must ensure that the state is retaining the necessary records from the specific tax functions to such a degree as to allow all Acceptance Sample questions to be answered (e.g., paper copies, imaging, microfiche, back up discs, etc). If employers are registering and reporting electronically, or entering data directly into the state's automated system, the exact information entered must be recorded by the state, along with an electronic audit trail including the entry's date and identity of the employer or representative entering the data.

For example, in the Status Determination chapter an Acceptance Sample question asks if, at the time of the TPS review, evidence exists the account had been correctly set up. In this instance to properly answer the question the state must have retained sufficient documentation for the reviewer to make that determination, whether examining the registration form or a printout of an electronic data screen which captured the original information entered by the employer. Another question asks if the employer provided all the information that is material to the Inactivated/Terminated Determination. For the reviewer to properly answer this question, documentation authorizing the termination must exist. Such documentation may be found in the form of a letter for the termination from the employer, or a report from state field staff indicating the business is closed, or on a computer listing of accounts terminated after the required quarters have lapsed with no reported wages.

It is the responsibility of the TPS reviewer to become knowledgeable about the information requested in the Acceptance Samples and ensure if the State is not currently retaining the information that arrangements are made to do so. In each chapter's Acceptance Sample instructions, information is provided that will also assist the reviewer in clarifying what work product must be retained by the State.

At a minimum, documentation must be recorded and maintained until the TPS Annual Report has been reviewed and approved by the Regional Office. The records can be retained in their original hard copy form, on microfiche or any other means that provides sufficient detail; or the State must maintain an audit trail which permits the reviewer to follow the flow of the work in complete enough detail so as to allow the Acceptance Sample to be answered in full.

c. Schedule and Conduct Introductory Meetings

The next step of the TPS review is to meet with the UI Director and the Tax Chief to ensure management support for scheduling and conducting the review. In addition, the State administrator who will deal with the reviewer in terms of TPS findings and recommendations must be identified.

A meeting should be scheduled with all appropriate personnel including unit supervisors and ADP staff to discuss the review, to request necessary materials, procedures, charts, etc. and to ensure that data processing staff are informed of their involvement in the creation of sampling universes and the processing of computed measures.

At both administrative and tax staff meetings the TPS reviewer must explain the purpose and content of the TPS review. It should be explained that the primary purpose of the review is to produce information for the State to use to improve the quality of their revenue operation; and that the secondary purpose is to make a formal judgment about whether reasonable assurance of quality exists in each of the functional areas.

GENERAL PROCEDURES

PLANNING FOR REVIEWS

Other items to explain include:

the tax function subjected to review

the role of Computed Measures

the role of System Reviews, Acceptance Samples and Expanded Samples

the steps of the review

the highly detailed nature of the review including the need to identify information sources to verify findings

Other activities to be covered at the initial meeting with unit supervisors are:

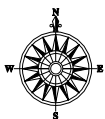
Providing copies of all review documents to the units involved in the review. This includes the individual tax functions (i.e., the Status unit, Cashiering, Delinquency unit, Field operations, and Accounting), as well as the Data Processing section.

Drafting a Flow Chart of the Tax Operation to serve as a road map to the TPS Program Review. It should show units responsible for each function and subfunction which will be reviewed and should identify the individuals to contact about each. This will also guide the reviewer in scheduling interviews, and clarify the operational flow of the tax functions.

Arranging to obtain materials describing the State's revenue procedures and rules. These materials should include UI Tax laws and regulations, manuals, and other written descriptions of organization and procedures.

d. Lay the Groundwork for Reviews and Computed Measures

The first objective of the reviewer is to learn enough about the applicable laws, rules and regulations of the State tax operation to effectively plan and administer the TPS review. The reviewer will complete the following tasks as part of the preparation:



Examine the data elements for Computed Measures. The reviewer must ensure that they are being gathered and that Federal definitions are being interpreted and reported as intended.

Complete or update the Organizational Chart. The TPS review will examine six tax functions in every State, but each State's tax agency is organized differently. Some agencies may call these functions by different names or have parts of a single function managed by many different units. By understanding who does what, the reviewers will become familiar with the specific structure of the State's Revenue organization prior to conducting the review.

Listing the staff to contact for information on each TPS subfunction will provide the reviewer with an understanding of the structure of revenue operations.

Assemble and review the materials including State's organization chart, laws, regulations, manuals and procedures. Many questions in the Program Review materials ask the reviewer to determine whether State procedures ensure that staff are correctly applying State UI tax laws and regulations. Questions on Recorded Information & Instructions ask whether such documentation reflect accurately and completely the current laws and regulations.

GENERAL PROCEDURES

PLANNING FOR REVIEWS

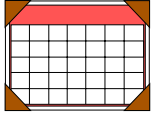
To prepare to answer these questions the reviewer should examine State UI tax laws, regulations and other written policies. These materials may be lengthy. If the reviewer is very familiar with the TPS review instruments it should be possible to identify those sections of State law and regulations which are most relevant. The reviewer might develop a reference sheet prior to conducting the review which could note key features of the State law, citations, and dates of enactment.

If an audit of the State has been recently performed by groups or firms outside the State tax area, the reviewer should examine the findings and the State's response to those findings. Information from the findings can aid the reviewer in developing a comprehensive understanding of the State's tax operation. Since audits are financial in nature, their focus is likely to be different from that of the TPS review. Therefore, the existence of a recent audit will not replace an TPS review.

During the preparation for this review, the reviewer should determine if there might be any questions in the Acceptance Sample Questionnaire which have no material effect on the current or future payment of UI tax.

If such questions are identified in the Acceptance Samples, the State will need to coordinate with the Regional representatives to obtain necessary approval to enter a code of "Not Applicable" one time for the entire column deemed not material. Regions will produce a brief memorandum attesting that due to State regulations, a particular question is Not Applicable. This memo will be attached as part of the State's Annual Report.

e. Develop Workplan for Reviews and Schedule Interview



A central part of the preparation and workplan development will be to schedule all interviews, Acceptance Sample reviews, and meetings with agency staff. The reviewer should develop a workplan which lists dates of review activities. The workplan should include starting dates as well as target completion dates for review of Computed Measures findings, Systems Reviews, Acceptance Sampling and completion of the Annual Report.

During the implementation of TPS, an integral part of the preparation and workplan is the examination of the Acceptance Sample universe time frames and required identification dates to determine whether each universe is to be identified by the "build as you go", or the "identify after the fact" method (see Appendix A).

The workplan should ensure that all required review steps are anticipated, that data processing is in simultaneous progression, that the State tax staff know when to expect review activities, and that all parties know whether the review is on schedule.

The contact person for each tax function should be informed of progress and findings so that no misunderstandings arise, and be made aware of any problem areas in the units as soon as possible.

In States where tax functions are spread out over many different locations, the reviewer should factor this into planning. Ideally, all locations should be examined each year, but if this is not possible, the reviewer should plan to visit a number of different locations each year, so that by the end of the four year Systems Review cycle, each location has been visited and evaluated.

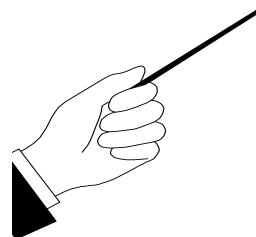
The reviewer will submit a workplan for each upcoming year to the RO. The RO will require progress reports to ensure that projected work is being completed on schedule, to the extent possible, and that the TPS Annual Report will be completed on time.

(Figure II-3 displays anticipated scheduling of Acceptance Sampling.)

Figure II-3

Figure II-3, done on "Pagemaker," will be inserted on this page. It was originally recorded as C:\document\PMDOCS\TPS\exhib2-5.PM5, but this filename has been changed and Bob Timms has the correct filename.

II. CONDUCT SYSTEMS REVIEWS



a. Begin Systems Review

The Systems Review is an organized assessment of each State's internal controls or quality assurance systems. The presence of these controls should ensure that the State's UI revenue transactions are processed accurately.

A system of "**internal controls**" is typically based on methods and policies designed to prevent fraud, minimize errors, promote operational efficiency, and achieve compliance with established policies.

A "**quality assurance review**" system is a periodic review, generally conducted at a point in the process where errors are likely to occur. The review may be performed by an individual or team within or outside the unit, to measure the performance of a function and make recommendations for improvements where warranted.

The internal controls included in the TPS Systems Review are based on the standards set for auditing which were published by the General Accounting Office (GAO/AIMD-00-21.3.1, Nov 1999). In each chapter of this handbook, internal controls will be modified as they relate to each particular tax function. Universal criteria are described below with added clarification.

GENERAL PROCEDURES

SYSTEMS REVIEWS

States should have the following types of internal controls:

Recorded Information and Instructions

Training Systems

Recording of Transactions and Events

Execution by Authorized Individuals

Systems to Assure Execution of Events

Review of Completed Work

Recorded
Instructions

The State establishes requirements, rules, and procedures to implement laws and regulations. Information about systems and procedures which guide how work is to be performed should be clearly documented and readily available for examination. Relevant information should be available to the appropriate staff both at the central and field offices. Recorded information and instructions should be sufficient or complete enough to ensure that personnel can learn and understand their jobs and perform their duties properly. Instructions should also be up-to-date, reflecting current procedures or laws

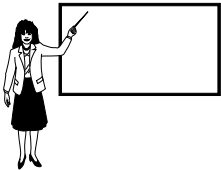


Recorded information may include manuals, handbooks, desk aids, computer help screens, training guides, organized collections of procedures or policies, or other readily accessible instructions which can help staff do their work correctly. Instructions will normally include both general information such as compilations of relevant laws and regulations, as well as detailed instructions for carrying out individual jobs in the agency. This means that reviewers may need to look in many places to examine all relevant instructions.

GENERAL PROCEDURES

SYSTEMS REVIEWS

Training Systems



Managers and employees responsible for key decisions should possess and maintain a level of expertise which enables them to accomplish their assigned duties. Training systems should be sufficient to ensure that personnel understand and perform their duties properly. (New employees should have some form of training, and experienced employees also benefit from refresher courses.)

When reviewing training systems, reviewers must look for formal training procedures (e.g., the training is conducted using an established schedule and using set guidelines to make judgments about the quality of work being produced). There should be procedures for identifying general and specific training needs and for delivering training as needed.

Recording of Transactions and Events



Transactions and other significant events are to be recorded and properly classified. The entire life cycle of a transaction or events should be promptly recorded. This includes recording the action which initiated the transaction(s), recording the transaction(s) that took place and recording the end result.

Whether systems are manual or automated, audit trails are necessary so that original information is recorded and retained. Hard copies, microfiches or imaging of original information can provide audit trails.

For employers filing or reporting electronically, on disk or tape, a copy of the reported information loaded into the employers' account/file would be considered an "original" document and provide an audit trail. Subsequent changes or deletions to the file must also be recorded. If the reviewer comes across a system which simply overlays new information over the original, without any apparent provision for an audit trail, the IT unit should be contacted to locate back up files such as tapes, disc, etc. of the computer program runs. The IT or Internal Security units should be able to explain how original information is recreated (short of running every back up tape), and the method used to catalog information so that the reviewer can be assured he or she is looking at original, versus adjusted, information.

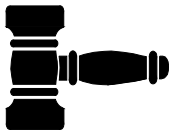
Electronic source data will not have the same appearance as the more-familiar paper document versions. For the TPS reviewer to understand and identify information when examining a string of fixed width fields in various data rows, the IT unit may have to provide a data dictionary, or assist in deciphering record specifications.

GENERAL PROCEDURES

SYSTEMS REVIEWS

Reviewers will determine whether State audit trail requirements provide for the classification and prompt recording of all significant events. The reviewer will also need to determine whether records are readily available to be used as needed for agency operation and management review.

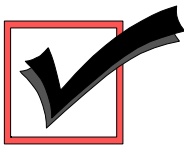
Execution by
Authorized
Individuals



Transactions and other significant events are to be executed only by persons acting within the scope of their authority. Only authorized individuals have access to and accountability for resources such as employer remittances.

Reviewers will determine whether State requirements provide for the execution of significant events by only authorized individuals.

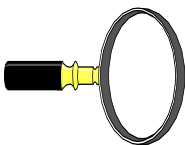
Systems to Assure
Execution of Events



Systems and controls such as monitoring procedures, exception identifications, checks and balances, reconciliations and edits should be routine in operational procedures. Automated or manual exercise of these controls as an integral part of program operations assures accurate and timely execution of transactions and events.

Reviewers should determine if such program management systems have been built into the State revenue operation.

Review of
Completed Work



Qualified and continuous review is to be provided to ensure that objectives which are material to the proper payments of tax are achieved. The following tasks are involved:

Systematic review of assigned work on a regular, ongoing basis.

Systematic review to determine whether systems and procedures are working as intended.

GENERAL PROCEDURES

SYSTEMS REVIEWS

Review of completed work can take many forms. It may be traditional supervision where a manager reviews and approves the work outputs of immediate subordinates. For some functions, such as cashiering, supervisory review may take the form of checking to assure that reconciliations are being performed. Other agencies may use peer review or quality assurance techniques where representative samples of the work of a tax unit are periodically reviewed, and based on the review, new procedures, training or assignments are implemented to improve quality.

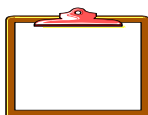
Not all tax functions are similarly affected by each internal control. Completing the TPS Systems Review questions for some internal controls like Recorded Information and Instructions, and Training may be repetitive in States where the same people (e.g., Technical Support Services or Training Section) provide different training for various units; or where there is only one manual, handbook, etc. for the entire tax operation.

Most of the questions in the Systems Review guide are **evaluative**. If the reviewer can not confirm that a particular control exists and that no other compensating control exists, a weakness is presumed to exist in the system and the State is judged to be at "risk". Some Systems Review questions are **non-evaluative** and for informational purposes only. Lack of these controls does not put State at risk. These informational questions, identified by an asterisk (*), are planned to be used to provide technical assistance for States in their various tax functions.

Note that if a State elects to operate with a weakness/risk in its system and no major changes have been put in place, the reviewer does not have to perform another Systems Review on that tax function the following year. However, that tax function will be deemed at "Risk" until the problem is resolved.

While it is important to identify areas of strengths and weaknesses for program improvement - **the final evaluation is based on the Acceptance Sample findings, not the Systems Review**. The design of Program Review focuses on the downstream effect -if there is no material effect on current or future payment of UI tax (as evidenced by the sample results), then the State has reasonable assurance of a quality tax operation.

b. Gather Information



The Systems Review is directed and organized by a set of fact finding questions and narratives. They are not intended to be "interview instruments" where the contents of a dialogue between the reviewer and State staff are simply recorded. Rather, the questions and narratives should serve as a vehicle for reviewers to record and **verify** information from many sources about the systems and controls States have installed to assure accuracy and timeliness in their tax operations. The reviewer will use and probe as many sources as necessary to come to conclusions as to the proper answer to each question.

A typical Systems Review will require the reviewer to gather information from three sources:

Examinations of manuals, handbooks, laws and other documentation

Interviews with State staff

Direct observation

The reviewer will need to use all of these sources to complete the Systems Review, and in most cases will need to go back and forth between the sources to fill in gaps. For example, a reviewer may have an idea of the responsibilities of an individual staff member based upon a review of the desk procedures for the person's job. Later, when interviewing the person the reviewer may hear a different description of the responsibilities. By returning to the documentation the reviewer can clarify the answers to the questions and identify additional questions which need to be asked to avoid any confusion.

GENERAL PROCEDURES

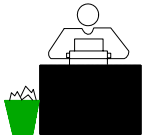
SYSTEMS REVIEWS



Examination of Documentation. The least intrusive means of data collection is review of documentation. By examining materials describing agency practices the reviewer can obtain preliminary answers to Systems Review questions without bothering agency staff or interrupting their work. More importantly, when it does come time to interview staff, the reviewer will get more accurate answers if he or she is credible.

The reviewer must be knowledgeable about both the TPS process and agency procedures to assure the respondents that their time is not being wasted. Review of documentation will help the reviewer become familiar with agency procedures and terminology.

Interviewing Staff. A major source of information for the Systems Review will be discussions with State staff who are familiar with the tax function being reviewed.



While the questions in this handbook are a start, they should not be the end. The reviewers will need to ask additional questions to be sure they fully understand the responses. They also need, in most instances, to speak with several staff persons to get full answers to all questions. Additionally, they may need to come back to some questions later if they cannot verify the response by examining documentation or by directly observing the system at work.



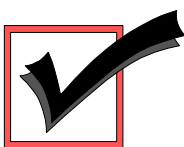
Direct Observation. The review of documentation and interviews with staff will leave the reviewer with an understanding of the way systems "are supposed to" operate, or the way administrators think they are operating. It is the reviewers' responsibility to assure themselves, through direct observation, that the systems actually operate that way. Any number of methods exist to observe a process, including: (1) reviewing reports, calculator tapes and other evidence of a procedure, (2) observing a process on-site, or (3) checking for the presence of a procedure while reviewing the Acceptance Sample.

GENERAL PROCEDURES

SYSTEMS REVIEWS

All Systems Review guides begin with a form to list people and documents that have been reviewed (Interview Sheet). This list is to be kept up to date as the review proceeds. The list will help other reviewers in subsequent years in conducting their review by serving as a recorded register of information sources used in support of the review effort. (It should be part of the TPS workpapers, but does not have to be submitted with the Annual Report.)

c. Verify the Information Obtained



The reviewer is expected to document the evidence obtained to support each "Yes" answer in the Systems Review checklist. Informational questions (marked with an asterisk) do not require any verification since they are not evaluative. This evidence will be recorded for each question or clusters of related Systems Review questions as the "Verification Source", often noted on the forms simply as VS. **The Verification**

Source should be the most direct evidence to support the answer recorded. Only when no other source is available will the verification source be solely the response from an interview.

In completing the Systems Review, verification of some answers may only be possible after examining a sample of outputs or after completion of the Acceptance Sample (e.g., to answer whether certain actions taken by field audit staff are being documented in their audits). The Systems Review will be in final form only after completion of Acceptance Sampling. Following are several examples of appropriate review activities and verification sources for specific areas of inquiry:

Question: Does the State have recorded information and instructions to assist employees performing Status functions in each category in accordance with State laws and written policies?

Review Activities: Read the manual, handbook, or procedures that were assigned to employee; interview staff to confirm use, etc.

Verification Source: Record the precise name and section or page number of documents containing information and instructions for making status determinations.

GENERAL PROCEDURES

SYSTEMS REVIEWS

Question: Does the State use Employer account number edits (e.g., hash totals, check digits) to assure accurate processing of employer contribution reports?

Review Activities: Read recorded instructions; interview staff to confirm or modify knowledge of how system works; and observe computer edits while in process for inputting reports or review system rejects.

Verification Source: Record the procedure or evidence observed (e.g., observing actual inputting of contribution reports using hash totals or check digits, or checking system edit rejects).

Question: Is there a systematic review of the accuracy of new employer status determinations? If yes, what type of review? (e.g., supervisory, peer, quality review, etc.)

Review Activities: Review procedural manual; interview supervisor and employees; and use Acceptance Sample to look for initials on forms or other evidence that supervisory review occurred. If Quality Review (QR) System is said to exist, review the procedures, interview QR supervisor and employees, and examine the evidence that review occurred or observe actual test run in process.

Verification Source: Record the procedure or evidence observed (e.g., supervisor's initials on forms, or observation of actual Quality Review in process).

GENERAL PROCEDURES

SYSTEMS REVIEWS

Question: Does the State have a means to assure prompt deposit of checks that must be removed from normal processing (suspense account/exception file) due to problems (i.e., reports received from new employers whose liability has not yet been determined, or reports with no employer account number, etc.)?

Verification Test: Review procedures State uses and select several employer remittance items at random with unidentified employer account numbers from their suspense account or exception file at beginning of the quarter, and at end of quarter check to see what disposition has been made of items selected for the sample.

Verification Source: Record suspense account procedures used by the State and note the findings of the verification test conducted.

Question: Is there an automated system indicator to identify accounts that are delinquent?

If yes, is a system check performed every time a program is changed?

Verification Test: Interview programming staff as to the frequency of program changes. (These may be infrequent.) If programming changes are occurring, observe system checks to verify accuracy. If no programming changes are occurring, interview programming staff on the process that would be followed to verify changes are made properly.

Verification Source: Record observations if programming changes have occurred. Document interviews with programming staff if no changes have occurred.

Verification Sources should be listed in detail for each question. If a particular control or quality assurance measure can not be verified (and no compensating control can be identified), the answer to that Systems Review question will be "No", and the reviewer will have identified a "risk" in that tax function. It should be clearly noted on the Systems Review coding sheet and referenced in the comments of the Annual Report.

GENERAL PROCEDURES

SYSTEMS REVIEWS

d. Complete the Systems Review Forms

For each tax function, System Review forms are provided in this handbook. They consist of the review form, coding sheets, and narratives. Several common features of the forms are described below.

Review Form. Most questions on the form are answered either Yes or No; however, some questions request a particular number or a percentage. The reviewer should record the correct answer to each question based upon review of all sources of information.

Some questions on the form provide for "A" (Not Applicable), which should be used **only** when appropriate. An example of using an "A" could be the answer to a Review question in Account Maintenance which states, "Does the State apply a tolerance level for differences between amount due and amount received?", when the State does not use a tolerance level for such discrepancies.

Some questions ask the reviewer to explain or describe something. Space is provided to write answers out in their entirety.

Questions marked with an asterisk (*) are for information only and are non-evaluative. (**NOTE: a portion of a question may be asterisked, but other, sub components of the same question such as "a.", "b.", "c.", etc. may not be asterisked. In such a circumstance, only the asterisked portion is non evaluative.**) Informational questions in the Systems Review are not evaluative and do not require verification or explanation of "No" responses.

Coding Sheet. Data entry procedures described in a separate handbook.

GENERAL PROCEDURES

SYSTEMS REVIEWS

Narratives. The System Review forms provide a narrative section following each set of internal control questions to explain any "No",

"NA" or "Other" responses or exceptions that the reviewer thinks warrant further details. *Should there have been a Compensating Control that has been identified, verified, and authorized by the Regional staff as an appropriate control, it must also be described here.*

Additional space at the end of each tax function's Systems Review is provided to describe any exemplary procedures or practices used in a particular tax function. *If additional controls were identified beyond those mentioned in the TPS review, they are to be described as well, and this form is to be sent to the Regional Office who will transmit it to the National Office at the end of the Program Review as technical assistance.*

e. Complete the Program Review Chart (preliminary)

The Program Review Chart serves to compile the results of the Systems Reviews and Acceptance Sampling. Upon completion of the Systems Review, enter the preliminary findings on the Program Review Chart (Figure II-4). There are three possible entries for the Systems Review findings - the State's system of internal controls could be: (C) Complete, (R) Risk identified, or (O) Other Compensating Control identified. (Note: Later, after completion of the Acceptance Sampling, if any case has been found to be unacceptable, yet the System review was coded as "Complete", the reviewer may need to review the systems again to resolve the inconsistency between the Systems Review and the Acceptance Sample findings. Such additional review may yield some revisions to the Program Review Chart to identify the particular systemic weakness which caused the case to fail.)

GENERAL PROCEDURES

SYSTEMS REVIEWS

- Complete For each tax function, record "C" if all internal controls and quality assurance systems listed in the Systems Review were in place. This means that all evaluative questions were verified (VS) and answered "Yes", except for questions marked "Other"; and questions which are marked with an asterisk (because they are non-evaluative).
- Risk If any "No" answers appear in the Systems Reviews, it identifies a potential risk or weakness in that area of State controls. The reviewer must enter an "R" to signal the area of risk. The actual significance of the problem may not be evident until a sample of outputs is examined during the Acceptance Sampling phase of review. If any sample cases are coded as having "failed", the reviewer can quickly scan the Program Review Chart for the presence of an "R" to see what may have caused the problem.
- Other If a "No" answer is entered for a particular control, but the State has an "Other" control thought to compensate for this weakness or risk, the reviewer must examine the control, verify its existence (VS), and describe it in the spaces provided. *Regional staff must agree that the control adequately substitutes for the missing control. (Acceptance Sampling results should aid in this decision.)*
- An example for using "other" might be a State which does not reconcile total benefits charged with benefits paid to ensure accuracy of their charges. Normally, this would result in a "Risk" in their system of internal controls. However, a legitimate compensating control could be the State's system of sampling each potential charge allocation scenario on a random basis to confirm accuracy. TPS's Acceptance Sampling would confirm the effectiveness of the State's control and no "risk" would be assigned. An "O" is to be entered after the final judgement is made by the Regional Office that this Compensating Control is adequate.

GENERAL PROCEDURES

SYSTEMS REVIEWS

State : _____

Review Period : _____

Figure II-4
PROGRAM REVIEW FINDINGS

Tax Function	Systems Review Verified Controls for:						Sampling		
	Recorded Instructions	Training	Recording of Events	Authorized Individuals	Execution of Events	Review of Work	EXCEPTIONS	COMPLETE	*
STATUS DETERMINATION									
New									
Successor									
Inact/Term.									
CASHIERING									
REPORT DELINQUENCY									
COLLECTIONS									
FIELD AUDIT									
ACCOUNT MAINTENANCE									
Contrib Rpt Processing									
Employer Debits/Billings							Contr Reimb	Contr Reimb	
Employer Credits/Refunds									
Employer Charging									
Employer Tax Rates									

SYSTEMS REVIEW:
 C = All controls verified as present
 R = Risk, 1 or more controls missing
 O = Other control compensated for missing control (requires Regional approval)

SAMPLING EXCEPTIONS:
 S = Size of universe too small
 I = Invalid universe or not sampled
 E = Exemption, tempo (Exp Rate only)
 F = Failed due to missing case information
 W = Waived, tempo (requires Regional approval)

SAMPLING COMPLETE:
 P = Passed
 F/# = Failed/ # of Cases Failing
 F/I = Failed/ Invalid or not sampled
 F/M = Failed/ Missing case information
 N = Not marked complete
 U = Undeterminable (Cashiering only)
 * = Out of tax unit's authority

III. ACCEPTANCE SAMPLING



a. Select Samples

Acceptance Samples are not meant to stand alone. They are to be the means of confirming the performance of a system whose internal controls have already been assessed by a Systems Review. If risks have been identified in the Systems Review, the samples will likely verify that system outputs fail to meet minimum levels of accuracy or completeness. If a system is deemed to be risk-free, samples of outputs should confirm this fact. For these purposes, it is not necessary to draw large samples for estimating the defect or error rate. Large samples are costly and time consuming. Since the purpose of the samples in the TPS Program Review is to verify a level of performance, much smaller samples can be used.

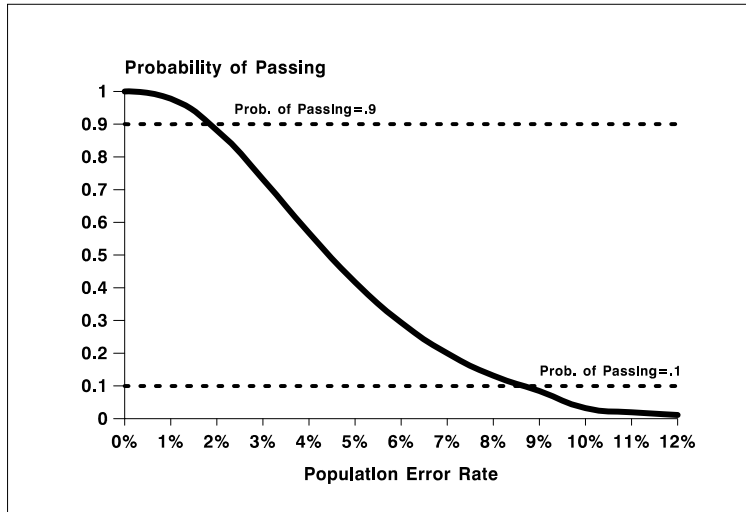
In assembling files from which samples will be selected, the state must ensure that they are randomized, or that a randomized algorithm is used before the sample is selected.

Once the Systems Review is complete, draw a sample of 60 cases from each tax function to confirm that system outputs meet minimum levels of accuracy or completeness (e.g., all appropriate actions are being taken to resolve delinquent reports, and field audits meet ESM requirements).

The desired accuracy/completeness level is 98% - that is, 98% of the tax function's outputs or work products should be accurate. For a tax unit operating with an underlying accuracy level of 98%, there is an 88% chance that two or fewer errors will be discovered in a sample of 60 cases. As the tax function's underlying accuracy level increases, there is a proportional increase in the chances of passing. Conversely, as the tax function's accuracy level decreases, the more cases in the sample are likely to fail.

The failure of three or more cases is reason to conclude that the exception rate for that function is at an unacceptable level. As the graph below shows, tax functions with accuracy levels below 98% still have a chance to pass the sample review, but the probability of passing rapidly decreases as the underlying accuracy level decreases. For instance, if the underlying error is 9%, there is only an 8% chance of passing the sample.

Probability of Acceptance Sample Passing
Sample Size=60 Allowable Errors=2



b. Case Removal or Non Use.

There are three instances where cases may not be used, or case removal may be necessary.

1. The particular case selected should **not** have been in the universe to be sampled. Note that this should not occur if, when developing sampling systems, the universe files were properly reviewed. There may be instances when the universe was not assembled correctly. For example, when building the universe of Collection cases, an account receivable which had less than \$100.00 unpaid UI tax due, could be inadvertently included. (The universe should consist of \$100.00 or more in unpaid tax.) However, it is important to have some evaluation of each tax function if at all possible. If cases that should not be in the universe are selected, do not replace them; instead, continue extracting samples. As long as the sample contains a minimum of 53 valid cases (i.e., cases that meet the universe definition), two cases can still fail and the results of the Acceptance Sample will remain consistent with that of 60 case samples. In such instances, the Regional Office needs to notify the National Office, which will ensure that the SUN system accepts such modification on a case-by-case basis. If the sample size drops below 53, that tax function cannot be evaluated

The IT section should be alerted in order to make modifications for future sampling efforts. The reviewer must then advise the Regional Office to ensure that future universes will be sound. Note must also be included in the Annual Report of the problem as well as corrective action steps taken to rectify the situation.

A non-evaluated tax function can not be found to have reasonable assurance of quality and will be counted as a failure. Code the Program Review Findings Chart's Sampling Exceptions cell with an "I". This will generate a failing score in the tax function's Sampling Complete cell. The only permissible exceptions for non-sampling are universes that are too small ("S"), Experience Rate samples not due for a review ("E"), or Federally-approved waivers ("W").

2. In Collections, any cases selected that had been subject to a TPS review the previous year, for which no subsequent debt was created, should be removed.

3. The particular case selected cannot be reviewed due to a missing case folder, or other documentation is missing, such as the microfiche or image of source documents. Sometimes documents cannot be found in order to make a ruling on the case's accuracy. Records may have been destroyed through circumstances beyond control (e.g., fire, flood, etc.). The documents may be misfiled or "checked out" to some other staff member and cannot be found.

In instances of this type removal is allowed for one and only one lost case.

Before removal the reviewer must: Assure (to the extent possible) that the work on the case was actually done, and make every effort to find the information. Check all possible places/ persons where the information could be located. Inform the Regional Office of the removal.

If a second case in the sample is missing then the reviewer cannot reach a conclusion that there is reasonable assurance of accuracy, and the entire sample will fail. The failure will count towards the total number of tax functions that have failed TPS quality review. Code the Program Review Findings Chart's Sampling Exceptions cell with an "F". This will generate a failing score in the tax function's Sampling Complete cell. Further details on the finding can be explained in the Annual Report.

While the review may stop at this point, tax managers may wish to continue the review in order to get an unofficial assessment of how the tax function is faring or to see the extent of missing documentation.

c. Review Samples



Once the sample is selected, each case in it must be reviewed, using the appropriate sample questionnaire. Each questionnaire contains a series of questions which must be answered for each case to determine whether it is correct.

One of the more difficult aspects of rating the cases involves deciding whether or not a given case is acceptable. For some transactions, the decision is relatively simple. For example, if a given employer contribution was not credited to the proper account in the right amount, then the transaction is not acceptable. However, Status Determinations, Collections, and Field Audits have many more elements in them. Some of those elements may be incomplete or inaccurate without materially affecting the accuracy of the outcome. In each function, every effort has been made to identify the essential elements for analysis and to exclude unnecessary elements.

Any question that the reviewer and State has about materiality of an element should be resolved with Regional staff as per the earlier Planning for Reviews section.

Note that if a sample case uncovers that something was done in error, but that the error was subsequently discovered and rectified due to the State's internal controls, the case would not fail. If, however, the error is rectified due to the employer bringing it to the State's attention, the case fails.

Appeals When a case appearing in the sample is under appeal, the review procedure should not be affected when the reason or basis for an appeal or its outcome is not germane to the purposes of the review. However, the appeal is a structured legal proceeding. The reviewer should determine if the agency has followed established procedure up to the point at which the case is being reviewed.

d. Complete the Acceptance Sample Coding Sheet

The answers to the Acceptance Sample Questionnaire questions should be recorded on the coding sheet for the respective function. The coding sheet allows space to record an answer for each question on the questionnaire. Most questions are coded Yes or No; however, some questions on the form provide for "I" (Information Not Available) or "A" (Not Applicable) which should be used only when appropriate.

GENERAL PROCEDURES

ACCEPTANCE SAMPLES

Information There may be instances when information is not available. For example:
Not There is a question for the Collections sample which asks, "Were telephone
Available contacts made...for the most recent quarter of liability?". It cannot be answered "yes" if no evidence can be located in the employer file to confirm a specific telephone call. However, if a letter referencing a previous phone call is found the TPS reviewer may draw the conclusion that such a phone call had probably been made. Under such circumstances "I" would be the appropriate answer. If no evidence exists that a phone call was made, yet State procedure requires one be made, then the answer to this question would be "No". This is a judgment call on the part of the reviewer, based on the information at hand and an understanding of the State's particular policy regarding collections procedures.

Not Acceptance Sample questions are to be answered "A" only when appropriate.
Applicable This means that an "A" response is acceptable only if the State does not utilize that process in their tax operations.. *Regional Office approval would be sought and this question would no longer be asked of the State.*

The second instance when an "A" response would be acceptable is when the process being reviewed was unnecessary in the case being examined. In the Collection chapter a question is asked, "Did State procedures require enforcement actions be taken to collect?" An example when "A" would be appropriate is if the money was received after a couple of calls and further enforcement action was unnecessary.

When all cases have been reviewed, the total number of acceptable cases should be entered at the bottom of the coding sheet. At this time, the reviewer may wish to begin the process of entering sample data into the SUN system.

An Acceptance Sample Explanation Sheet has been included in each chapter. Any sample case that fails should be identified, and the potential responsibility for its failure should be noted. This will assist reviewers later when they attempt to correlate systemic weaknesses with resultant inaccuracies in various tax functions' output.

e. Prepare Preliminary Findings and Meet with State Staff



At the conclusion of the Systems Reviews and Acceptance Sampling, the reviewer should complete the Reasonable Assurance Chart and draw conclusions as to whether the State has accuracy in all of the functions examined. (Soon after each review is finished tax managers should also be made aware of any problems that may have been found so they can clarify any misunderstandings or begin to consider potential program improvement strategies.)

Systems Reviews and Acceptance Sampling results are complementary. There are four possible outcomes after both procedures have been conducted: If no risk was found in the review of State controls, passing Acceptance Sampling is a **consistent** outcome. So is the situation of having identified risks in the State's internal controls and having failed sampling. However, findings of risk coupled with passing sampling; and findings no risk and failing sampling are **inconsistent** and require analysis and explanation.

SYSTEMS REVIEW

ACCEPTANCE SAMPLE

No Risk Found

Pass (consistency)

Fail (inconsistency)

Risk Found

Pass (inconsistency)

Fail (consistency)

The reviewer must take whatever steps are necessary to make the findings from the Systems Review and the Acceptance Sampling Review rational and consistent. For both inconsistent outcomes, additional analysis will be necessary to resolve the findings or provide an explanation for the inconsistency. Only then is the reviewer finished with preliminary findings.

FRAMEWORK FOR PROGRAM REVIEW ANALYSIS

SYSTEMS REVIEW
FINDING

ACCEPTANCE SAMPLE
FINDING

No Risk Found

Acceptance Sample Passes

Finding: the tax function's controls are in place and producing high quality outputs.

No Risk Found

Acceptance Sample Fails

Further Work: Re-examine the failed cases to confirm that they should have been judged as having failed. Examine the cause of sample failure, determine if it had simply been due to a rare case of human error and whether another sample case should be pulled.

Re-examine Systems Review findings. Are there any controls that should have been deemed at risk? If controls are proper, are they being executed by staff - is there a defect in the control's design? - Were the controls verified to be in place? Consider drawing second sample to confirm or refute findings, or drawing an expanded sample to produce a specific error level.

Finding: The tax function's controls are at risk and allowing inaccurate or incomplete outputs.

OR

Expanded sampling indicates that the tax function's controls are in place and producing quality outputs.

Risk Found

Acceptance Sample Passes

Further Work: re-examine area at risk to determine whether 1) there is significant risk; or 2) the existing controls are strong enough to produce quality outputs; or 3) compensating controls have been overlooked; or 4) there are off-setting factors (still considered a risk by TPS) such as long-time competent employees in place.

Consider selecting another sample to confirm that the outputs are truly accurate. The sample design is such at there is a change of passing (2 or fewer errors in a sample of 60) even though there is an underlying error rate of 8.6% - this may be such a situation.

Finding: The tax function's controls are in place/or have offsetting factors/or are strong enough to produce accurate outputs. Produce recommendations for improving any controls.

OR

Additional sampling has produced failed cases - confirming that the tax function's controls are at risk and allowing inaccurate outputs.

Risk Found

Acceptance Sample Fails

Further Work: Analyze the cause and effect relationship of risk to failure. Consider drawing an expanded sample to estimate a true error rate. Develop recommendations for improvement.

Finding: The tax function's controls are at risk and allowing inaccurate outputs.

As always, it is important that State staff be integrally involved in the review process. Therefore, the reviewer should meet at this point with the appropriate State decision-maker (e.g.,

UI Director and/or Tax Director) to discuss the preliminary findings. At the meeting the reviewer should briefly remind the State staff of the objectives and sub-objectives being analyzed. All findings should be discussed, the cause and impact of any problems should be presented, and means of addressing the problems should be considered.

The reviewer should also have examined the findings from Computed Measures, before meeting with State staff

If the State decision maker agrees with the findings the reviewer may proceed with data entry into the SUN system and the preparation of a written "draft" Annual Report. If the State decision maker does not agree with the findings, the reviewer will need to gather additional information. The reviewer may choose at this point to return to parts of the Systems Review. For example, the State staff might indicate that the reviewer has misunderstood something which was reviewed, or that additional information is available from a source which the reviewer did not use. The reviewer can repeat segments of the Systems Review to revise the findings or to confirm that the findings are correct. The State may elect to draw a second Acceptance Sample to confirm or deny the initial findings. Only two Acceptance Samples may be selected for each function.

If the State does not agree with the findings from the second Acceptance Sample, the next required step in the Program Review process becomes Expanded Sampling.

f. Select and Examine Expanded Samples

The purpose of expanded sampling in TPS is to support the findings of the review of internal controls, quality assurance systems and the acceptance or procedure review samples. Expanded sampling is not necessary when the State concurs with the findings. If, however, the State does not agree, then an expanded sample is necessary to estimate the potential impact of the weakness on program quality. Even when the State might agree with a finding, the reviewer has the option to select an expanded sample when there is uncertainty about the nature of findings and more detailed information is desired.

Expanded samples will be used to assess the extent of the problems identified by acceptance sampling. They will need to be large enough to develop precise estimates of the error rate. The State and TPS reviewer also may choose to use expanded sampling to identify the nature and cause of errors found during acceptance sampling. When used for these purposes it may be appropriate to draw the expanded sample only from a particular type of transaction.

As the name implies, an expanded sample is an expansion of the acceptance sample. Therefore, expanded sampling follows the same steps and the preparation conducted for the acceptance sampling review can be used directly in conducting the expanded sampling.

The steps are:

- 1) determine the sample size
- 2) identify the transaction types and time periods
- 3) select the sample
- 4) review the sample, using the questionnaire for the function.

The steps are described in detail in Appendix A of this handbook.

g. Sampling by Exception

The TPS Program Review examines the routine processing of work in each major tax function by extracting samples of work products. By examining small samples of the majority of the State's work, assessment is made on the quality of the overall tax operation. However, some States may also be concerned about potential problems outside the routine flow of work. Areas that are more error-prone may warrant special attention: an example could be employer charge statements with credits which involve claimants with overpayments and/or monetary redeterminations.

These areas have not been included in the basic TPS design even though they are much more likely to result in error, because they only represent a small proportion of the tax operation's output.

If the State wishes to examine such exceptions, they may design an Acceptance Sample for these error-prone cases, or they may contact the Regional Office for assistance. *Regional staff may have knowledge of similar sampling processes used by other States, or the National Office may have a design that would be applicable*

The State may also want or need more information about a risk which the Systems Review identifies or a problem which reoccurs in Acceptance Sample cases. In these instances States may design a "special study" for informational purposes. Such a study may involve designing special questions and selecting a sample where the questions may be used to gather information or, in the case of an expanded sample, to determine the error rate. *States should contact their Regional Office for additional information regarding exception sampling.*

IV. CONCLUDING REVIEW



a. Assess Computed Measures' Findings

Program Reviews are intended mainly to assess reasonable assurance of accuracy in the tax operation. Computed Measures provide indicators of end-product timeliness and completeness. An assessment of a tax operation must weigh all these factors (i.e., timeliness and accuracy are both important in the Status operation - however, timeliness of determinations should not be at the cost of accuracy. An acceptable balance must be sought). Computed measures will be generated based on data derived from routine State reports.

TPS has developed reports which display trends over time within a State and among States. These reports are on the TPS section within the SUN system should be examined by the TPS reviewer along with the findings from Program Reviews to develop a comprehensive evaluation of the State's tax operation. Links to national tax data are also available at the web site [www://ows.doleta.gov](http://ows.doleta.gov), under "Unemployment Insurance", "Performance Management", "UI Performs Performance Measures" and under "Tax Performance System".

Refer to Appendix B for data processing instructions for Computed Measures.

b. Complete the Program Review Chart

Before completing the Annual Report, reviewers need to complete the Program Review Chart. The purpose of the chart is to:

Summarize the results of the Acceptance Sampling relative to which functions have reasonable assurance of accuracy,

Record how individual portions of the System Reviews contribute to reasonable assurance of quality.

Reviewers should fill in every cell on the Chart which is not shaded. The allowable entries are described. (Note that the electronic version of this Chart on the SUN system has slightly different codes to reflect the automated nature of the SUN version.)

COMPLETION OF THE PROGRAM REVIEW CHART

Systems Review

ENTRY	MEANING
C (Complete)	All internal controls were verified as being in place and operating
R (Risk)	One or more controls were missing or not verified (One or more "No" answers to evaluative questions)
O (Other)	Another, "compensating control" was verified as being in place and operating (Regional approval required)

Acceptance Sampling

ENTRY	MEANING
Y (Pass)	Fewer than 3 cases failed sampling (internal controls are effective in producing quality outputs)
N (Fail)	Three or more cases failed sampling review (internal controls are not effective in producing quality outputs) or Two or more cases were missing (insufficient documentation to rule on quality of outputs)
D (Discard)	Sample was discarded

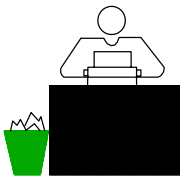
At this point the data from the Systems Reviews and Acceptance Sampling should be consistent, in which case judgments are reasonably straight forward. When/if there is inconsistency between findings from the two sources and it's impossible to resolve them, the overall determination of the tax function's quality is to be based on the findings of the Acceptance Sample (or Expanded Sample if one was used). Inconsistencies should be noted in the Annual Report.

GENERAL PROCEDURES

CONCLUDING REVIEWS

The Program Review Chart should be attached to the Annual Report. *Any Regional comments such as those dealing with compensating controls or approval of "A" categories in Acceptance Sampling should also be included.*

c. Prepare Draft TPS Report



Upon completion of all portions of the review, the reviewer will prepare a draft report of the findings. The report should follow the structure of the TPS Report (example provided in Appendix D) with the exception of the section on State response, which is not completed at this time.

The draft report is to include information from Systems Reviews, Acceptance Sampling, Expanded Sampling (as necessary), and Computed Measures. It is meant to convey in narrative form the areas of strengths and weaknesses in the State tax operation. The TPS Report should simply and clearly inform State Administrators and Regional representatives of the areas of concern, exemplary practices and program improvements.

The report should be organized under the following topics:

- Purpose A brief statement of the purpose of the report and the date the review was completed.
- Summary of Findings The purpose of this part of the report is to provide a synopsis of what was found, recommendations, and exemplary practices. (The remainder of this report goes into greater depth on how the data was gathered, sources, cause, effects, and more detailed recommendations.)
- Objectives Explain what was reviewed and the methodologies used.

GENERAL PROCEDURES

CONCLUDING REVIEWS

Principal Findings

Provide a detailed analysis of overall findings, identifying the tax functions that failed Acceptance Sampling, and areas identified as needing improvement.

For each tax function indicate:

If any cases failed, the number, and why they failed.

The risks identified during the Systems Review and where they were found.

List any compensating controls found to exist. (Attach Regional approval of the ability of such controls to substitute for TPS-listed controls)

List any controls that were said to be in place but could not be verified (VS).

Correlate any Acceptance Sample failures with risk found in the Systems Review, or explain any inconsistencies (e.g., risks but pass, no risks but fail)

If computed measures data is provided for the function, examine the trends they reveal, and if appropriate, correlate them with Program Review findings.

Make recommendations - if appropriate, discuss possible solutions with the individual responsible for the tax function being reviewed.

GENERAL PROCEDURES

CONCLUDING REVIEWS

Exemplary Practices

Mention practices that are positive which could be used by other units within the State or other States. Bring these to the Region's attention.

Global/Systemic Trends

Mention any overall trends where risks are found or areas of concern were noted. If systemic strengths are noted throughout the various reviews, they should be elaborated on in this area of the report.

As the reviewer analyzes TPS findings, potential recommendations should be developed. Input could be sought from those most directly involved with the tax functions at the State and Regional levels.

d. Conduct Exit Interview

At the Exit Interview the entire review team should meet with the UI Director, Tax Director and other staff designated by the State. The meeting will cover each section of the written report and is to be shared with the State. If the preliminary meeting on findings was detailed, and if no expanded sampling was done, this portion of the Exit Interview may be brief. It may simply confirm that the written document incorporates previous understandings.

The second portion of the Exit Interview will be a discussion of State activities which could be undertaken to correct problems identified or to expand the approaches which are producing high quality products.

e. Prepare the TPS Annual Report

The Report should consist of a 1- or 2-page Executive Summary which briefly describes principal findings and summarizes suggested improvements, and a more detailed section which evaluates every tax function in terms of accuracy, timeliness and completeness. It must include information from: Computed Measures, Program Reviews (i.e., Systems Reviews and Acceptance Sampling), and Expanded Sampling (if performed).

Any comments the agency wishes to make should become a part of the report. Action(s) taken and/or planned to be taken to correct any areas identified as needing improvement should also be reported.

GENERAL PROCEDURES

CONCLUDING REVIEWS

The final evaluation of the State's tax operations is based on Computed Measures data and Acceptance Sample findings. The Systems Review serves to identify areas of strengths and weaknesses for program improvement. The TPS design focuses on the downstream effect - if there is no material effect on current or future payment of UI tax (as evidenced by sample findings in which all cases "pass" i.e., meet quality standards), then the State has reasonable assurance of a quality tax operation. For instance, when risks are identified in the Status operation, but the unit is still able to produce accurate and timely determinations, the TPS Annual Report will indicate that there are specific areas of risk (and what the recommended solutions may be), but that the State presently has confirmed acceptable levels of accuracy for its Status Determinations.

CHAPTER III

STATUS DETERMINATION

COMPONENTS

INTRODUCTION

COMPUTED MEASURES

PROGRAM REVIEW

INTRODUCTION

STATUS DETERMINATION

INTRODUCTION

The Status function identifies employers liable for unemployment insurance (UI) coverage and assists them in their effort to comply with State UI Laws and written policies. This is the initial process in the tax operation. The major tasks within the function are:

Identify potential employers subject to the law

Determine Status (e.g., new, successor, non-subject)

Assign account numbers

Notify employers of their liability and initial rate

Inactivate/terminate employer accounts

Process and record all coverage information
(Account Maintenance)

Handle liability appeals as appropriate

PRIMARY OBJECTIVE

The primary objective of the Status function is to identify and register employers in a timely and accurate manner. To accomplish this, the State will need to meet several sub objectives:

1. Determine employer Status in a timely fashion (*Timeliness*)
2. Determine and record employer Status and tax rate correctly (*Accuracy*)

STATUS DETERMINATION

INTRODUCTION

Timeliness To assess the effectiveness in producing timely Status Determinations, Computed Measures will be generated based on data routinely reported. These data elements will be converted into four indicators by the TPS ADP system. These indicators will measure from the end of the quarter in which liability occurred.

Accuracy To determine whether accurate determinations are being made, a Program Review will be conducted to ascertain the existence of necessary internal controls and to determine whether or not such controls are functioning properly.

REVIEW METHODOLOGIES

Computed Measures

Computed Measures will provide indicators to measure timeliness of New and Successor Status Determinations. These measures will be generated on data elements reported by States through routine quarterly reports. There are four indicators which will be used to measure timeliness of Status Determinations.

1. Percentage of newly established accounts made within 90 days
2. Percentage of newly established accounts made within 180 days
3. Percentage of successor accounts made within 90 days
4. Percentage of successor accounts made within 180 days

REVIEW METHODOLOGIES

Program Review

The Program Review to be conducted for Status has two components: a Systems Review section and an Acceptance Sample section composed of three samples.

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 identify the internal controls and quality assurance systems necessary for an effective Status Determination operation, and to verify that the State has such controls in place.

The Acceptance Samples examine the following:

- New Employer Determinations
- Successor Determinations
- Inactivations/Terminations

Three Acceptance Samples of completed Status Determinations will be examined to confirm that the State's system of controls is ensuring accurate Status Determinations. The Acceptance Samples will validate the effectiveness of the State's internal controls and confirm that accurate Status Determinations are being made and posted to the employer account record.

COMPUTED MEASURES

STATUS DETERMINATION

COMPUTED MEASURES

COMPUTED MEASURES

Computed Measures will provide indicators for timeliness of New and Successor Status Determinations. These measures will be generated based on data elements reported by States through routine quarterly reports. The State TPS reviewer must ensure that the State captures these data elements as defined so that the TPS ADP system can produce output reports based on these data elements.

Some States accumulate the data elements required for Status computed measures through ADP records. Other States keep manual records. Either way it is important that accurate records be kept from the beginning. Data elements needed to calculate Status timeliness indicators will be extracted from the routine Form ETA 581 reports which are transmitted from States to the National Office electronically. Appendix B explains the technical process for gathering this information.

Status Determination Indicators

The four indicators to measure timeliness of Status Determinations are described below.

1. Percentage of Status Determinations of newly established accounts made within 90 days from the last day of the quarter in which the business first became liable.
2. Percentage of Status Determinations of newly established accounts made within 180 days from the last day of the quarter in which the business first became liable.
3. Percentage of Status Determinations of successor accounts made within 90 days from last day of the quarter in which the business became a successor.
4. Percentage of Status Determinations of successor accounts made within 180 days from last day of the quarter in which the business became a successor.

STATUS DETERMINATION

COMPUTED MEASURES

COMPUTED MEASURES

Indicator 1 - Percentage of 90 day New Employer Status Determinations.

Rationale. This indicator reflects the percent of Status Determinations made during the 90 day time period from the last day of the quarter in which a new business becomes liable. The end of the quarter was set for the indicator to promote consistency in measuring time lapse (the old time lapse was from the date the employer became liable and because of differences in their laws, the States did not count from the same date).

90 days is also important because of the need to have employer wage records in the State files for benefit payment purposes. Finally, undue delay in setting up an account can result in a loss of revenue.

Formula

$$\frac{\# \text{ determinations made within 90 days (581 Item 15)}}{\text{total \# New Status Determinations (581 Item 14)}}$$

Example:

$$\frac{700 \text{ timely new determinations}}{1000 \text{ total new determinations}} = 70\%$$

Indicator 2 - Percentage of 180 day New Employer Status Determinations.

Rationale. This indicator reflects the percent of Status Determinations made during the 180 day time period from the end of quarter in which a new business becomes liable. The 180 day timeliness indicator is governed by the need for additional time and incentive to make determinations which have passed the due date for the 90 day indicator. This indicator encourages States to use all available methods to identify and register those employers whose registration could not be completed within the 90 day period.

STATUS DETERMINATION

COMPUTED MEASURES

COMPUTED MEASURES

Formula

$$\frac{\# \text{ determinations made within 180 days (581 Item 16)}}{\text{total \# New Status Determinations (581 Item 14)}}$$

Example:

$$\frac{900 \text{ timely new determinations}}{1000 \text{ total new determinations}} = 90\%$$

Indicator 3 - Percentage of 90 day Successor Status Determinations.

Rationale. This indicator reflects the percent of Status Determinations made during the 90 day time period from the last day of the quarter in which the business becomes liable as a successor. The rationale is the same as for indicator 1.

Formula

$$\frac{\# \text{ succ. determinations made within 90 days ((581 Item 18)}}{\text{total \# Successor Status Determinations (581 Item 17)}}$$

Example:

$$\frac{700 \text{ timely successor determinations}}{1000 \text{ total successor determinations}} = 70\%$$

STATUS DETERMINATION

COMPUTED MEASURES

COMPUTED MEASURES

Indicator 4 -Percentage of 180 day Successor Status Determinations.

Rationale. This indicator reflects the percent of Status Determinations made during the 180 day time period from the last day of the quarter in which the business becomes liable as a successor. The rationale is the same as for indicator 2.

Formula

$$\frac{\# \text{ succ. determinations made within 180 days (581 Item 19)}}{\text{total \# Successor Status Determinations (581 Item 17)}}$$

Example:

$$\frac{900 \text{ timely successor determinations}}{1000 \text{ total successor determinations}} = 90\%$$

Data Elements

The numbers of new and successor determinations made within 90 and 180 days of the end of quarter in which liability occurs are reported on Form ETA 581. TPS requires the number of new and successor determinations made within 90 and 180 days from the end of the quarter of liability rather than the "time lapse" formerly reported. It is important to count the exact number of days since not all quarters have exactly 90 days. The "determination date counted to" should be the date the Status information is input into the States automated system. See above examples.

STATUS DETERMINATION

COMPUTED MEASURES

COMPUTED MEASURES

Drawing Conclusions

If an analysis of the results of these measures does not show high percentages of timely determinations or an improving trend, the TPS Reviewer should examine the findings of the Systems Review to ascertain whether problems causing delays are controllable within the State or are caused by external factors.

Findings or trends from computed measures should be considered with Systems Review and Acceptance Sample findings in evaluating the effectiveness of the State's operation and be included in the Annual Report.

PROGRAM REVIEW

COMPONENTS

SYSTEMS REVIEW

ACCEPTANCE SAMPLES

SYSTEMS REVIEW

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW INTERVIEW SHEET

Function	Reviewer
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Persons Interviewed			Documents Reviewed	
Date	Name:	Title:	Title:	Form#:

SYSTEMS REVIEW

Recorded Information and Instructions

For Status Determination, recorded information and instructions should include requirements for unemployment insurance coverage and procedures for processing information to establish, suspend, terminate, reactivate and maintain accounts.



The reviewer should examine recorded instructions available to the staff and compare procedures to the laws and written policies of the State to determine if the recorded information and instructions are current, accurate, and complete. The reviewer should also observe the Status Determination process and talk with employees to learn whether or not the recorded instructions are available to staff.

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 the staff becomes aware of the proper procedures to perform the tasks of the Status Determination function.

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the State have recorded information and instructions to assist employees performing Status functions in each major category in accordance with State laws and written policies?

Yes No

- a. New Determinations
- b. Successor Determinations
- c. Inactivations/Terminations

2. If yes, for each major Status category, are all the recorded information and instructions:

New Succ. Inact.
Acct. essor Term.

(Indicate Yes or No for Each Category)

- a. Current?
- b. Accurate?
- c. Complete?
- d. Readily available to staff?.....

VS:(Questions 1 and 2)

STATUS DETERMINATION

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)

STATUS DETERMINATION

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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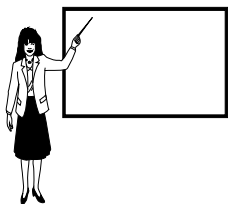
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SYSTEMS REVIEW

Training

New employees need to learn the requirements for unemployment insurance coverage and the procedures for processing Status information to establish, suspend, terminate, reactivate and maintain accounts. Experienced 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 the methods and procedures the State uses to identify and meet training needs of employees involved in determining the liability of subject employers.



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 how the staff know the laws, rules, written policies and proper procedures to perform Status functions.

STATUS DETERMINATION

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.

STATUS DETERMINATION

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

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.

VS:(Questions 1 - 4)

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

5. *In the opinion of the supervisor or manager, does the training meet the needs of the Status 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 following these questions.

VS:(Question 6)

STATUS DETERMINATION

PROGRAM REVIEW

STATUS DETERMINATION

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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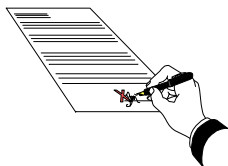
STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW

Recording of Transactions and Events

The Status function should have procedures and controls to assure that Status Determinations are recorded and that the source information is readily available for examination. Whether the State system is manual or automated, an audit trail should lead from the data recorded in the employer account record to the Status source document upon which the determination was based.



A Status source document is the information basis from which a Status Determination is made. It can consist of a registration form, Status change form, blocked claim report, appeal finding, letter from the employer or whatever documentation the State has accepted as the information source.

The reviewer should become familiar with the various types of Status Determinations which require an audit trail leading to the supporting documentation.

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 the State does not maintain source documents or an audit trail, describe how it assures that correct Status Determinations have been made.

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the State have procedures to assure that Status Determinations can be traced to their source (even if the source is via electronic media)?

Yes ___ No ___

2. Can the following items be identified through the audit trail for New Employer Determinations:

Yes No

- a. Employer or employer representative who notified State of liability change?
- b. State employee who recorded or authorized the determination?
- c. Type of determination (new)?.....
- d. Date of Status Determination? (either the date decision is made, mailed or put into the ADP system)
- e. The supporting documentation for the determination?

3. Can the following items be identified through the audit trail for Successor Employer Determinations:

Yes No

- a. Employer or employer representative who notified State of change?.....
- b. State employee who recorded or authorized the determination?
- c. Type of determination (successor)?.....
- d. Date of Status Determination? (either the date decision is made, mailed or put into the ADP system)
- e. The supporting documentation for the determination?

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

4. Can the following items be identified through the audit trail for Inactivation/Termination Determinations:

- | | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| a. Type of determination (inactivation/termination)?..... | | |
| b. Date of Status Determination? (either the date decision is made, mailed or put into the ADP system) | | |
| c. The supporting documentation for the determination? | | |

VS:(Questions 1 - 4)

5. Is a source document required to make a Status Determination for:

- | | <u>Yes</u> | <u>No</u> |
|-------------------------------------|------------|-----------|
| a. New Determinations? | | |
| b. Successor Determinations? | | |
| c. Inactivations/Terminations?..... | | |

VS:(Question 5)

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

6. *Which of the following are acceptable as source documents for Status Determinations?
Enter "Y" for yes, "N" for no or "A" for not applicable.

New Succ- Inact./
Acct. essor Term.

- a. *Registration form?
- b. *Status change form?
- c. *Correspondence from employer?
- d. *Field audit report?
- e. *Contribution report, remittance?
- f. *Notes of telephone conversation?
- g. *Blocked claims report?
- h. *Appeals findings?
- i. *Electronic media?
- j. *Other?

7. Are original and amended information sources, including electronic source documentation, retained and accessible for State use for:

Yes No

- a. New Determinations?
- b. Successor Determinations?
- c. Inactivations/Terminations?

VS:(Question 7)

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

8. 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 the questions.

VS: Question 8)

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW NARRATIVE

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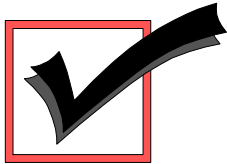
Question Number	Answers to "If yes, describe" and "Other":
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SYSTEMS REVIEW

Systems to Assure Execution of Events

For Status Determination, controls should be built in to assure that new employers are assigned correct, initial new employer rates and that successor accounts are assigned correct initial rates according to the State's successorship and transfer of experience laws and regulations. A follow-up system to maintain control of work in progress assures that all Status documents received by the State are acted upon in a timely manner.

The reviewer should become familiar with built in systems and automated or manual controls which assure accurate and timely execution of Status Determinations.



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 the State does not have internal controls or safeguards, describe how it assures the correctness of Status Determinations, initial rate assignments and posting of Status information.

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the State have systems procedures or internal controls to minimize the possibility of setting up duplicate accounts for the same employer?

Yes ___ No ___

VS: (Question 1 _____)

2. Does the State have system procedures or internal controls to assure that all Status documents are acted upon by:

Yes No

a. Tracking documents?

b. Following up potentially liable determinations?

c. *Other?

3. *Does the State have written procedures to allow Status Determinations to be made with less than complete information?

Yes ___ No ___

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

If yes, does the State:

- a. Have system procedures or internal controls to assure that there is a follow up on all items for which all information has not been received?

Yes ___ No ___

VS:(Question 2 and 3a. _____)

- 4. Does the State have system procedures or internal controls to assure that written Status Determinations and initial rates are issued to:

Yes No

- a. New employers?.....
- b. Successor employers?.....

VS:(Question 4 _____)

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

5. Is there a built-in edit or manual review to assure that the correct initial rate is assigned to new employers?

Yes ___ No ___

If yes, describe

6. Is there a built-in edit or manual review to assure that correct initial rates are assigned to successor employers according to the State law and written policy?

Yes ___ No ___

If yes, describe

VS:(Questions 5 and 6 _____)

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

7. Is the information from Status Determinations and other material changes to the employer records verified for accuracy (e.g., Is information on the employer record compared to source documents to assure accurate posting of Status Determinations, address changes, etc.)?

Yes ___ No ___

VS: (Question 7 _____)

8. Does the state have a quarterly procedure to inactivate employer accounts if the employers have not reported wages for eight consecutive quarters (or less than eight if state procedures require less), or have filed a “no wage” report?

Yes ___ No ___

VS: (Question 8 _____)

- *a. If yes, is the procedure automated?

Yes ___ No ___

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

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

Yes ____ No ____

VS: (Question 9) _____)

10. Does the state have a system in place and operating to detect tax rate manipulation (i.e., SUTA Dumping)?

Yes ____ No ____

If Yes, answer below.

a. Have written procedures or guidelines been developed to document requirements for identification and investigation of potential rate manipulators?

Yes ____ No ____

VS: Examine operating instructions to confirm rule criteria for SUTA Dumping detection.

(Question 10 a.) _____

b. Does the agency compile a data base of employers who indicate an “excessive” movement of employees from one quarter to the next?

Yes ____ No ____

VS: Examine query documentation for tracking movement of employees, changes in tax rate, changes to reimbursing status and excess voluntary contributions.

(Question 10 b.) _____

STATUS DETERMINATION

PROGRAM REVIEW

- c. Are potential rate manipulators routinely identified and assigned for further investigation every quarter?

Yes ____ No ____

VS: Locate cases and confirm they have been investigated.

(Question 10 c.)_____

11. 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 the questions.

VS: (Question 11)_____

STATUS DETERMINATION

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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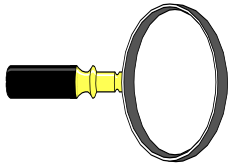
STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW

Review of Completed Work

For the Status function, the State should be conducting systematic reviews of Status Determinations made and initial rates assigned. The information received and the action taken should be checked against the information recorded in the employer's account.



A review of completed work should be done on a regular basis for all staff members involved in processing documents for the employer's account. This review may be done on an individual basis for each staff member, or by sampling work done throughout the entire unit. The following questions are designed to determine how these reviews are conducted.

The reviewer should become familiar with the kind of review program the State uses to assess the work performed by the Status function.

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 performed, describe how the State has reasonable assurance that correct decisions are being made.

For all staff members involved in processing Status documents, are the following components subject to some form of systematic review?
 For Yes **answers**, enter a "Y" in the appropriate column(s). If there are no reviews, answer "N" in column 6 which is evaluative.

Component	Type of review					
	*1 Supv	*2 Peer	*3 QR Qual.Rev	*4 Support Clerical	*5 Other	6 Review Conducted Y/N
New Determinations						
a. Accuracy of determinations						
b. Accuracy of initial rate assignment						
c. Accuracy of posting employer information						
d. Prompt completion of determinations						
Successor Determinations						
e. Accuracy of determinations						
f. Accuracy of initial successor rate assignment						
g. Accuracy of posting information						
h. Prompt completion of determinations						
Inactivation/Termination Determinations						
i. Accuracy of determinations						
j. Accuracy of posting						

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

7. 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 7)

STATUS DETERMINATION

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":
-----------------	--

STATUS DETERMINATION

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

Additional Controls

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

Yes ___ No ___

If yes, describe below:

2. *Are there any exemplary practices for the Status function?

Yes ___ No ___

If yes, describe below:

ACCEPTANCE SAMPLES

ACCEPTANCE SAMPLE INSTRUCTIONS

NEW EMPLOYER STATUS DETERMINATIONS

Purpose/Intent

To confirm that the state's internal controls ensure accurate determinations by examining completed New Employer Status Determinations.

To determine that correct, initial rates are being assigned to new employers.

To evaluate whether the state follows its procedures to obtain any necessary additional information.

To assess the accuracy of posting Status information to the employers' account records.

Scope

The scope of the review will focus on all new and reactivated Status Determinations made during the selected calendar year. (Accounts which are reactivated only to make corrections, do not meet the definition of "reactivation" and should not be included.)

Universe

The universe to be identified for the New Employer Status Determinations Acceptance Sample will include:

1. All Status Determinations for New and Reactivated Employers, (e.g., employing units initially meeting the definition of "employer" in the state unemployment compensation law or previously terminated employing units which again meet the definition of employer) made during one complete calendar year. Exclude temporary or "pending" accounts, or accounts that have not met a liability provision of the state's law.
2. 60 cases will be selected from this universe.

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

Timing/Frequency

The sample will be selected once per calendar year.

The universe can be identified immediately following the end of the calendar year.

Sampling Procedures

The following steps must be taken to establish the universe and select the sample accounts:

1. Identify all New Employer Status Determinations (including Reactivations) made during the calendar year selected for the review.
2. Select 60 sample cases after identifying the universe.
3. If a case should not have been in the New Employer universe to begin with, follow the Case Replacement instructions in Chapter II of this Handbook. However, some accounts in the sample may later have been redetermined to be successorships, or the new account may later have been terminated, or redetermined not to be liable after all. Such cases can remain in the universe. Subject to review, however, are the decision, tax rate and posting of the new determination. Subsequent decisions such as successorship, or to terminate are not part of the review. If errors are found in the subsequent decisions, they should be noted in the Annual Report, but the case will focus on the new employer determination.

ACCEPTANCE SAMPLE INSTRUCTIONS

Sampling Procedures

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

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

Reviewing Samples

Assemble the following information for each of the New Status Determinations selected for review:

1. Status information in the employer account record.
2. The original source of information and any other documentation from the state's records. Documentation can consist of a hard copy registration form, field auditor's report notations to the file explaining the source, etc. If the employer registered electronically, the electronic data screen containing the original registration information or facsimile of the original data entered by the employer (or employer's representative) can be used as the source document. If the employer registered by telephone with agency staff transmitting the data directly into the mainframe, that mainframe data can be used as the source document. Employer contact information and identity of agency staff must also be documented.

If the original information is not available, the answer to question 3a. must be "no."

Compare all source documents with the information on the employer's account record, and answer the questions on the Acceptance Sample Questionnaire.

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

Reviewing Samples

1. Accuracy of Initial Liability Decision - includes questions to evaluate if a correct initial decision based on minimum information was made. (TPS refers to actual rather than temporary or "pending" accounts). Some States have procedures which allow an initial liability decision to be made based on partial information (i.e., a partially completed contribution return with no other information). These States should follow up after the initial liability decision to ensure that information to make an accurate Status Determination has been obtained. If insufficient time has lapsed for the information to have been received, the review may end with question 3. The time period needed to obtain information is as set by State procedures, but not longer than 3 months, to avoid a situation where a blocked claim could result. States which do not have such a procedure are directed to proceed to question 3.
2. Accuracy of New Employer Determination at Time of Review - includes questions to evaluate if a correct, decision, liability date and initial rate have been assigned. Initial rate means the first rate assigned to the account. I.e., if liability began five years ago, the rate assigned for the first year of liability would be the "initial rate".

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

*Reviewing Samples
Cont.*

3. Accuracy of Posting - includes questions to evaluate if the Status Determination was posted correctly in accordance with State requirements. The reviewer must use some discretion in this section to avoid penalizing a case which may contain slight typographical errors that have little or no material effect on the employer's account. Such findings should be noted in the Annual Report, but should not fail the case.

Drawing Conclusions

All questions are evaluative except 1, the first part of 2, and 4 f. correct posting of "Other" information. A "No" answer to any evaluative question means that the case is not considered acceptable.

If the completed review of 60 cases includes three or more unacceptable cases, then the reviewer must conclude that accuracy in the Status function was not confirmed.

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

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.

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

Accuracy of Initial Liability Decision

1. *Do State procedures permit setting up active accounts with less than complete information?
Yes ___ No ___

If "Yes", answer question 2. If "No", go to question 3.

2. *Was the case under review set up with less than complete status information?
Yes ___ No ___

If "Yes", answer questions 2a., and 2b. If "No", go to question 3.

- a. Based upon the information available at the time the account was set up, was a correct liability decision made?
Yes ___ No ___

- b. Is there evidence that the State tried to obtain the necessary additional information?
Yes ___ No ___

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

NOTE: If, at the time of the review, the liability decision was made with less than complete information, and there has not been sufficient time to obtain necessary additional information, answer question 3 based on the evidence available when the initial liability decision was made. If question 3a is answered "No", do not answer the rest of the Questionnaire.

Accuracy of New Employer Determination at Time of Review

3. At the time of the review:
- a. Is there sufficient documentation to support a liability decision?
Yes ___ No ___
 - b. Was the correct liability decision made?
Yes ___ No ___
 - c. Was the liability date established within the correct quarter?
Yes ___ No ___
 - d. Was the correct tax rate assigned?
Yes ___ No ___ NA ___

NOTE: Answer question 3d as "NA" if the account is a reimbursable account.

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

4. At the time of the review, indicate whether the following account information was correctly posted.
- a. Employer name? Yes ___ No ___
 - b. Employer mailing address? Yes ___ No ___
 - c. Liability date? Yes ___ No ___
 - d. Type of organization? Yes ___ No ___ NA ___ INA ___
 - e. Initial tax rate? Yes ___ No ___
 - f. *Other _____ Yes ___ No ___ NA ___

NOTE Typographical errors such as the spelling of the employer's name should not result in a "No" answer, so long as it does not impact the proper administration of the account.

STATUS DETERMINATION

PROGRAM REVIEW

*TAX PERFORMANCE SYSTEM
 Status Sample Coding Sheet
 New Employers Checklist*

State: _____ Period Covered: _____ Date: _____ Reviewer: _____
 Sample Type: Acceptance Expanded

<i>Case Number</i>	<i>Employer Identification Number</i>	<i>1</i>	<i>2</i>	<i>2a</i>	<i>2b</i>	<i>3a</i>	<i>3b</i>	<i>3c</i>	<i>3d</i>	<i>4a</i>	<i>4b</i>	<i>4c</i>	<i>4d</i>	<i>4e</i>	<i>4f</i>	<i>Pass/Fail Y/N</i>

Questions 2a, 2b, 3a, 3b, 3c, 3d, 4a, 4b, 4c, 4d, and 4e are evaluative. Total Acceptable ___ of ___ Page __ of __

*TAX PERFORMANCE SYSTEM
 Status - Sample Explanation Sheet
 New Employers Checklist*

State: _____ *Period Covered:* _____ *Date:* _____ *Reviewer:* _____

Sample Type: *Acceptance* *Expanded*

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

ACCEPTANCE SAMPLE INSTRUCTIONS

SUCCESSOR EMPLOYER STATUS DETERMINATIONS

Purpose/Intent

To confirm that the State's internal controls ensure accurate determinations by examining completed Successor Employer Status Determinations.

To determine that correct initial successor rates are being assigned to employers according to the State's successorship laws and written policies.

To evaluate whether the State follows its procedures to obtain any necessary additional information.

To assess the accuracy of posting Status information to the successor employers' account records.

Scope

The scope of the review will focus on all Successor Status Determinations made during the selected calendar year.

Universe

The universe to be identified for the Successor Employer Status Determinations Acceptance Sample will include:

ACCEPTANCE SAMPLE INSTRUCTIONS

Universe cont.

1. All accounts which during one calendar year are determined to be successors according to State laws and regulations (an employing unit which has acquired the organization, trade, or business in whole or in part, of another employer, declared subject as of the day on which it meets the requirement of the State employment compensation law for a successorship).
2. Both first time and existing employers. Some States do not require the transfer of experience to successor accounts. Such an account may be assigned a new employer rate even if it is determined to be a successor.
3. Various types of successorships permitted by State law and written policy (e.g., mandatory, optional, total or partial).
4. 60 cases will be selected from this universe.

Timing/Frequency

The sample will be selected once per calendar year.

The universe can be identified immediately following the end of the calendar year.

ACCEPTANCE SAMPLE INSTRUCTIONS

Sampling Procedures

The following steps must be taken to establish the universe and select the sample accounts:

1. Identify all Successor Status Determinations made during the calendar year selected for the review.
2. Select 60 sample cases after identifying the universe.

NOTE: Sometimes an account is selected in the successor sample which was set up based on less than complete information. If it is discovered when the State follows its investigative procedures that the account should have been a "new" employer, continue to review it with this questionnaire and consider the case acceptable.

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

Sampling Procedures
cont.

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.

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

Reviewing Samples

Assemble the following information for each of the successor Status Determinations selected for review:

1. Status information in the employer account record.
2. The original source of information and any other documentation from State's records. Documentation can consist of a registration form, successor and or predecessor application form, field auditor's report, notations to the file explaining the source, etc. If the employer reported electronically, or entered data directly into the state's automated system, the electronic data screen containing the original successorship information entered by the employer (or employer's representative) can be used as the source document. If the original source of information is not available, the answer to question 3a. must be "no".

Compare all source documents with the information on the employer's account record.

Using this information, answer the questions in the Acceptance Sample Questionnaire.

NOTE: If the account has been terminated by the time of the TPS review, the Successor Employer Status Determination, rate assignment and posting should be the basis for answering the questions.

ACCEPTANCE SAMPLE INSTRUCTIONS

*Reviewing Samples
cont.*

1. Accuracy of Initial Liability Decision – includes questions to evaluate if a correct initial decision based on minimum information was made (actual rather than temporary or pending accounts). Sometimes State procedures allow an initial liability decision to be made based on partial information (i.e., a partially completed contribution return). The State should follow up to ensure that information to make an accurate Status Determination has been obtained. If insufficient time has lapsed for the information to have been received, the review may end with question 3.
2. Accuracy of Successor Employer Determination at Time of Review - Questions evaluate if State is following its law provisions with regard to the initial rate first assigned to successors. Some States require that successors who are first time employers be assigned the predecessor's rate. In this instance it may be necessary to determine which predecessor rate was in effect at the time the successor was determined to be an employer. In States that require immediate transfer of experience and recalculation of the rate, it may be necessary to review the components of the rate calculation to ascertain that the correct initial rate was assigned.

It is the initial successor rate that should be examined, not any subsequent rates that may have been assigned. For example, if the successor has been assigned an initial rate in Year 1, and then another rate in Year 2, the reviewer should examine year 1's rate only.

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

Drawing Conclusions

For the Successor Acceptance Sample all questions are evaluative except 1, the first part of 2, and 4f. Posting of "Other" information.

A "No" answer to any evaluative question indicates that the Status Determination was not accurate or the rate was not correctly assigned. This means that the case is not considered acceptable.

If the completed review of 60 cases includes three or more unacceptable cases, then the reviewer must conclude that accuracy in this function was not confirmed.

If the completed review of 60 cases includes three or more unacceptable cases, the reviewer must conclude that accuracy in the Status Successor Account Maintenance function was not 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 must be maintained.

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

Accuracy of Initial Successor Liability Decision

1. *Do State procedures permit setting up successor accounts with less than complete information?
Yes ___ No ___

If "Yes", answer question 2. If "No", go to question 3.

2. *Was the case under review set up with less than complete status information?
Yes ___ No ___

If "Yes", answer questions 2a., and 2b. If "No", go to question 3.

- a. Based upon the information available at the time the account was set up, was a correct successor liability decision made?
Yes ___ No ___

- b. Is there evidence that the State tried to obtain the necessary additional information?
Yes ___ No

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

NOTE: If, at the time of the review, the successor liability decision was made with less than complete information, and there has not been sufficient time to obtain necessary additional information, answer question 3 based on the evidence available when the initial successor liability decision was made. If question 3a is answered "No", do not answer the rest of the Questionnaire.

Accuracy of Successor Determination at Time of Review

3. At the time of the review:

a. Is there sufficient documentation to support a successor liability decision?

Yes ___ No ___

b. Was the correct successor liability decision made?

Yes ___ No ___

c. Was the successor liability date established within the correct quarter?

Yes ___ No ___

d. Was the correct tax rate assigned?

Yes ___ No ___ NA ___

NOTE: Answer question 3d as "NA" if the account is a reimbursable account.

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

4. At the time of the review, indicate whether the following successor account information was correctly posted.

- a. Employer name? Yes ___ No ___
- b. Employer mailing address? Yes ___ No ___
- c. Liability date? Yes ___ No ___
- d. Type of organization? Yes ___ No ___ NA ___ INA ___
- e. Initial successor tax rate? Yes ___ No ___
- f. *Other _____ Yes ___ No ___ NA ___

NOTE Typographical errors such as the spelling of the employer's name should not result in a "No" answer, so long as it does not impact the proper administration of the account.

*AX PERFORMANCE SYSTEM
 Status Sample Coding Sheet
 Successor Checklist*

State: _____ *Period Covered:* _____ *Date:* _____ *Reviewer:* _____
Sample Type: *Acceptance* *Expanded*

<i>Case Number</i>	<i>Employer Identification Number</i>	<i>1</i>	<i>2</i>	<i>2a</i>	<i>2b</i>	<i>3a</i>	<i>3b</i>	<i>3c</i>	<i>3d</i>	<i>4a</i>	<i>4b</i>	<i>4c</i>	<i>4d</i>	<i>4e</i>	<i>4f</i>	<i>Pass/Fail Y/N</i>

Questions 2a, 2b, 3a, 3b, 3c, 3d, 4a, 4b, 4c, 4d, and 4e are evaluative. Total Acceptable ___ of ___ Page ___ of ___

*TAX PERFORMANCE SYSTEM
 Status - Sample Explanation Sheet
 Successor Checklist*

State: _____ *Period Covered:* _____ *Date:* _____ *Reviewer:* _____

Sample Type: *Acceptance* *Expanded*

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

ACCEPTANCE SAMPLE INSTRUCTIONS

INACTIVATED/TERMINATED STATUS DETERMINATIONS

Purpose/Intent

To confirm that the State's internal controls ensure accurate determinations by examining completed Inactivated/Terminated Status Determinations.

To evaluate whether the State follows its procedures to obtain any necessary additional information.

To assess the accuracy of posting Status information to the employers' account records.

Scope

The scope of the review will focus on all Inactivated and Terminated Status Determinations made during the selected calendar year.

Universe

The universe to be identified for the Inactivated and Terminated Employer Status Determinations Acceptance Sample will include:

1. All Status Determinations for inactivated and terminated employers. Inactivated employing units have been granted permission to suspend filing of quarterly reports, whereas terminated employing units have been granted termination of coverage by reason of not meeting the State's definition of employer. If State law permits both types of determinations, the population from which the sample is selected should include both.

ACCEPTANCE SAMPLE INSTRUCTIONS

Timing/Frequency

The sample will be selected once per calendar year.

The universe can be identified immediately following the end of the calendar year.

Sampling Procedures

The following steps must be taken to establish the universe and select the sample accounts:

1. Identify all Inactivated or Terminated Determinations made during the calendar year selected for the review.
2. Select 60 sample cases.

The review can be completed any time after the cases are selected.

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.

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

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

Reviewing Samples

Assemble the following information for each of the Inactivated or Terminated Determinations selected for review:

1. Status information in the employer account record.
2. The original source of information and any other documentation from the State's records. Documentation can consist of a letter or Status change form from an employer, a list or an automated code which indicates that State law or policy permits the inactivation or termination of accounts after a certain number of quarters in which no wages were reported, etc.

If the employer provided inactivation information electronically, or entered data directly into the state's automated system, the electronic data screen containing the original inactivation information entered by the employer (or employer's representative) can be used as the source document. If the original source of information is not available, the answer to question 3a. must be "no".

Compare all source documents with the information in the employer's account record.

Using this information, answer the questions on the Acceptance Sample Questionnaire.

NOTE: If the account has been reactivated by the time of the TPS review, the Terminated Employer Status Determination, and posting should be the basis for answering the questions.

ACCEPTANCE SAMPLE INSTRUCTIONS

Drawing Conclusions

All the questions are evaluative, except 1, the first part of 2, and 4b. Posting of "Other" information.

A "No" answer to either of these questions indicates that the Status Determination was not accurate. This means that the case is not considered acceptable.

If the completed review of 60 cases includes three or more unacceptable cases, then the reviewer must conclude that accuracy in the Status Inactivated/Terminated function was not confirmed.

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

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.

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

Accuracy of Inactivated/Terminated Determination

1. *Do State procedures permit inactivating accounts with less than complete information?

Yes ___ No ___

If "Yes", answer question 2. If "No", go to question 3.

2. *Was the case under review inactivated with less than complete status information?

Yes ___ No ___

If "Yes", answer questions 2a., and 2b. If "No", go to question 3.

- a. Based upon the information available at the time the account was inactivated, was a correct inactivation decision made?

Yes ___ No ___

- b. Is there evidence that the State tried to obtain the necessary additional information?

Yes ___ No

STATUS DETERMINATION

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

NOTE: If, at the time of the review, the inactivation decision was made with less than complete information, and there has not been sufficient time to obtain necessary additional information, answer question 3 based on the evidence available when the initial inactivation decision was made. If question 3a is answered "No", do not answer the rest of the Questionnaire.

Accuracy of Inactivation Determination at Time of Review

3. At the time of the review:

a. Is there sufficient documentation to support an inactivation decision?

Yes ___ No ___

(Statutory inactivation/termination after the required number of quarters lapse with no reported wages is sufficient documentation to support a determination.)

b. Was the correct inactivation decision made?

Yes ___ No ___

4. At the time of the review, indicate whether the following account information was correctly posted.

a. Last date of liability (last point in time when employer is expected to file contribution returns)?

Yes ___ No ___

b. *Other _____

Yes ___ No ___ NA ___

*TAX PERFORMANCE SYSTEM
Status Sample Coding Sheet
Inactivated/Terminated Checklist*

State: _____ Period Covered: _____ Date: _____ Reviewer: _____
 Sample Type: Acceptance Expanded

<i>Case Number</i>	<i>Employer Identification Number</i>	<i>1</i>	<i>2</i>	<i>2a</i>	<i>2b</i>	<i>3a</i>	<i>3b</i>	<i>4a</i>	<i>4b</i>	<i>Pass/Fail Y/N</i>

Questions 2a, 2b, 3a, 3b, 3c, 3d, and 4a are evaluative. Total Acceptable ___ of ___ Page ___ of ___

*TAX PERFORMANCE SYSTEM
 Status - Sample Explanation Sheet
 Inactivations/Terminations Checklist*

State: _____ *Period Covered:* _____ *Date:* _____ *Reviewer:* _____

Sample Type: Acceptance Expanded

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

The Cashiering function consists of processing employer contribution payments, including the following major tasks:

- Receive employer contribution payments
- Prepare contribution payments for deposit
- Deposit contribution payments into clearing account(s)
- Record all contribution payment deposit information
- Post contribution payments to employer accounts
- Transfer monies to the Unemployment Trust Fund (UTF)

PRIMARY OBJECTIVE

The primary objective of Cashiering is the prompt and accurate processing of employer contribution payments. To achieve this, the Cashiering function must:

1. Process all contribution payments accurately and record deposit activities accurately (**Accuracy and Completeness**)
2. Deposit all contribution payments promptly and transfer monies to the UTF timely (**Timeliness**)

***Accuracy
and
Completeness
Timeliness***

To determine the accuracy and completeness of processing employer contribution payments and recording deposit activities, a Program Review will be conducted to determine the existence of necessary internal controls and to determine whether or not such controls are functioning properly. To assess the promptness with which the State deposits contribution payments into the clearing account, an **Estimation Sample** will be conducted. (Timeliness of the transfer of monies from the clearing account into the UTF

will be gauged through another vehicle and will not be assessed through TPS)

REVIEW METHODOLOGIES

Because accuracy of posting of contribution payments will be evident through the Account Maintenance Acceptance Samples for Contribution Report Processing, Debits/Billings and Credits/Refunds, no Acceptance Sampling is required for the Cashiering function.

Program Review

The Program Review for Cashiering has two components: a Systems Review and an Estimation Sample.

The Systems Review covers the following:

Recorded Information and Instructions

Training

Recording of Transactions and Events

Execution by Authorized Individuals

Systems to Assure Execution of Events

Review of Completed Work

Review UI Cashiering activities conducted by Non-State Entities (other State Agency or Lockbox)

REVIEW METHODOLOGIES

The Systems Review will identify the internal controls and quality assurance systems necessary for an effective Cashiering operation, and indicate if such controls are in place. Most questions in the Systems Review require a Verification Source (VS). However, because of the significance of the Cashiering function, some review questions require small, stringent tests to confirm the presence and effectiveness of the internal controls.

Verification Test (VT) instructions are provided when a verification test is needed. If a VT fails, the reviewer must draw the conclusion that a risk exists in that area. (VTs that fail must be repeated the following year.)

In addition to the review of the State Cashiering operation, a section has been designed for the States that employ non-State, State Agencies (e.g. State Departments of Revenue) or banks (lockboxes) to perform Cashiering activities. For States that employ either a non-State agency or a bank lockbox for Cashiering activities, BOTH SYSTEMS REVIEWS ARE NECESSARY because:

Rarely can all contribution payments and documents received at a non-State cashiering site be processed exclusively at the site, and

The State Cashiering Systems Review includes questions dealing with recording deposit information for which States have responsibility.

All references to Non-State State Agencies and Bank Lockbox Operations will be generically referred to as Non-State Entities on all subsequent pages.

NOTE: If NO contribution payments are received by the State, some questions in the State Cashiering Systems Review may not be applicable to your State's operations. The reviewer should carefully examine each question in the State Cashiering Systems Review, document the reason specific questions are not applicable and request Regional Office approval to record N/A answers for those questions.

REVIEW METHODOLOGIES

The Estimation Sample for Cashiering examines :

Employer Contribution Payments

In addition to the Systems Review, a sample of employer contribution payments will be examined to measure the timeliness in which contribution payments are deposited into the State's clearing account. The Estimation Sample will be selected from daily mail receipts during the review period.

PROGRAM REVIEW

COMPONENTS

SYSTEMS REVIEWS

State

Non-State Entities

ESTIMATION SAMPLES

State

Non-State Entities

SYSTEMS REVIEWS

SYSTEMS REVIEW

Recorded Information and Instructions

In the State Cashiering operations, procedures should be set forth for receiving employer contribution payments, preparing contribution payments for deposit, depositing contributions into the clearing account, recording deposit activity, posting contribution payments to the employers' accounts and transferring monies to the UTF.



The reviewer should examine recorded information, instructions and procedures available to the staff and compare them to the laws and written policies of the State to determine if they are current, accurate, and complete. The reviewer should also observe the Cashiering process and talk with employees to learn if the recorded information, instructions and procedures are available to staff.

The operations of a non-State entity to process contribution payments for the State, will **not** be included in this section of the review (See the Non-State Entities Systems Review for a review of non-State State Agencies and bank lockbox operations). However, residual work done by the State will be included, e.g., procedures for sending and receiving work to and from the non-State entity.

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 the staff becomes aware of the proper procedures to perform the tasks of the Cashiering function.

CASHIERING

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the State have recorded information and instructions to assist employees to perform Cashiering functions in accordance with State laws and policies?

Yes ___ No ___

2. If yes, are all recorded information and instructions:

Yes No

- a. Current?
- b. Accurate?
- c. Complete?
- d. Readily available to staff?.....

VS:(Questions 1 and 2 _____)

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 following these questions.

VS:(Question 3 _____)

CASHIERING

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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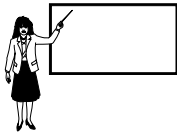
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SYSTEMS REVIEW

Training

The State needs to have systems and procedures to identify training needs and deliver training to employees who perform duties within the Cashiering function. New employees need to learn the procedures for processing and posting employer contribution payments. Experienced employees benefit from periodic refresher courses and additional training when procedures change and/or defects in quality occur at an unacceptably high rate.

The reviewer should become familiar with the methods and procedures the State uses to identify and meet the training needs of employees involved in cashiering activities.



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 formal training program, then describe how the staff learns of the laws and written policies and the proper procedures to perform the Cashiering duties.

CASHIERING

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.

CASHIERING

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. Peak processing periods?
- f. *Other?.....

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 following these questions.

VS: (Questions 1-4 _____)

CASHIERING

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

5. *In the opinion of the supervisor or manager, does the training meet the needs of the Cashiering 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 following these questions

VS:(Question 6 _____)

CASHIERING

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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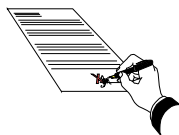
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SYSTEMS REVIEW

Recording of Transactions and Events

The Cashiering function should have procedures and controls to assure that employer contribution payments are accurately accounted for and that bank deposits are accurate and reconciled. Whether the State system is automated or manual, an audit trail should lead from source documents to State accounting records of receipts and to the transfer of monies into the UI Trust Fund.



The reviewer must determine whether there are systems to assure that records of receipt and processing of employer contribution payments are kept accurately, completely, and up-to-date. An audit trail should be in place leading to support documentation.

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 recording or reconciliation of the General Ledger Account, then explain how the State is assured that the accounts are accurate.

SYSTEMS REVIEW QUESTIONS

1. Does the State maintain an audit trail for the following types of transactions:

Yes No N/A

- a. Receipt of employer contribution payments?
- b. Preparation of contribution payments for deposit? . . .
- c. Deposits to the clearing account?
- d. Deposit discrepancies?
- e. Posting to employer accounts?
- f. Transfer monies to the UI Trust Fund?
- g. Balancing of contribution payments?
- h. Information received via electronic media
- i. Dishonored contribution payments (NSFs)?

2. Does the State have a means to identify the source of discrepancies?

Yes ___ No ___

*If yes, which are used:

Yes No

- a. *Deposit list/calculator tapes?
- b. *Batch lists/batch reconciliation?
- c. *Bank statements?
- d. *Debit or credit notices from bank? (Dishonored checks
or discrepancies)
- e. *Bank Statement Trial Balance?.....
- f. *State Treasurer's Report?
- g. *Other?.....

SYSTEMS REVIEW QUESTIONS

3. Are the information sources retained and accessible for State use?

Yes ___ No ___

VS:(Questions 1 – 3 _____)

4. 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 following these questions.

VS:(Question 4 _____)

CASHIERING

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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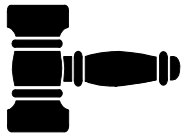
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SYSTEMS REVIEW

Execution by Authorized Individuals

The Cashiering unit handles negotiable items and cash. Access to these contribution payments should be limited to authorized, assigned staff. This requirement provides security for the contribution payments and assures that the cashiering functions are performed by authorized, assigned individuals only.



The reviewer must examine the flow of contribution payments through the State and identify the internal controls limiting access to and providing accountability for the contribution payments. The reviewer must also examine the authorizations and procedures governing the flow of contribution payments from field offices and other sources to the Central Cashiering unit.

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.

SYSTEMS REVIEW QUESTIONS

1. Does the State have the following controls to assure that the processing of contribution payments is limited to assigned staff in the Central Office:
 - a. Specific individual(s) assigned to assure that all mail is picked up or delivered daily?
Yes ___ No ___
 - b. Specific individual(s) assigned to open and handle checks?
Yes ___ No ___
 - c. Area for opening and handling checks restricted to assigned individuals?
Yes ___ No ___
 - d. Specific individual(s) assigned to receive and prepare contribution payments for deposit?
Yes ___ No ___
 - e. Area for preparing contribution payments for deposit restricted to assigned individuals?
Yes ___ No ___
 - f. Specific individual(s) assigned to account for and forward contribution payments to bank for deposit?
Yes ___ No ___

CASHIERING

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. g. Area for accounting of contribution payments to forward to the bank for deposit restricted to assigned individual(s)?

Yes ___ No ___
- h. Specific individual(s) assigned to deliver contribution payments to bank?

Yes ___ No ___
- i. * Controls for receiving and depositing contribution payments other than those listed above? (If yes, describe in the narrative).

Yes ___ No ___

VS:(Question 1 _____)

2. Does the State have the following internal controls to provide accountability for all employer contribution payments received in other units in the Central Office and/or the field:
 - a. Specific individual(s) assigned and responsible for receiving and accounting for contribution payments?

Yes ___ No ___

CASHIERING

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

- b. Procedures for controlling and forwarding contribution payments from collections units, field units or other similar units to the Central Cashiering Unit?
Yes ___ No ___

- c. Procedures to verify that contribution payments forwarded from collections units, field units or other similar units were received by Central Cashiering Unit?
Yes ___ No ___

VS: (Question 2 _____)

- 3. Does the State have the following internal controls providing accountability for handling currency (actual cash) received:
 - a. Pre-numbered receipt books?
Yes ___ No ___
 - (1) If yes, is an internal audit (e.g., verifies who assigns the books, who possesses them, that the proper number sequence is used, etc.) performed?
Yes ___ No ___
 - (2) *If yes to (1) above, indicate frequency of audit by checking all that apply:
 - (a) *Monthly
 - (b) *Quarterly
 - (c) *Annually
 - (d) *Other

SYSTEMS REVIEW QUESTIONS

VT: (Verification Test) Conduct the following test and annotate your findings in the space below. Pull either the completed receipt books from the last four quarters or the records of completed receipts for the last four quarters. Verify and track the use of pre-numbered receipt books, correct numbering of the receipt books and that the receipts are used in sequence from the books.

Verify that the currency received was deposited and accurately posted to the employer account for 12 receipts. If the total number of receipts written is less than 12, verify the deposit activity and accuracy of posting to the employer's account for all of them.

NOTE: If no receipt books were issued and/or no receipts were written during the review period, contact your Regional Office for instructions.

4. Are specific individual(s) assigned to transfer monies from the clearing account to the UTF? Yes ___ No ___

VS:(Question 4 _____)

SYSTEMS REVIEW QUESTIONS

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 following these questions.

VS:(Question 5 _____)

CASHIERING

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

For Cashiering, controls are needed to reconcile balances of transactions and to identify areas where exceptions are encountered.



The reviewer will determine if such controls have been built into the Cashiering operations. It is beyond the scope of TPS to actually validate balances in the general accounting system. The reviewers will only verify that the State maintains a general accounting system and performs reconciliations of all accounts (i.e., Accounts Receivables, Clearing, Solvency Fund, Penalty and Interest).

A section has been designed for States that employ the services of Non-State Entities to perform cashiering activities. Both sections must be completed by States that use the services of Non-State Entities because not all cashiering activities can be processed through the Non-State Entities' operation.

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.

CASHIERING

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the State verify that the amount shown on the daily deposit records agrees with the amount credited by the bank?

Yes ___ No ___
2. Does the State verify that the amount credited by the bank agrees with the amount recorded in the State's accounting system (i.e., general ledger account)?

Yes ___ No ___
3. Does the State have internal controls in place to assure that discrepancies between its deposit records and bank deposit records are routinely reconciled?

Yes ___ No ___
4. Does the State have internal controls that assure that adjustments are made to the accounting system to reflect discrepancies reported by the bank?

Yes ___ No ___
5. Does the State have internal controls that assure that adjustments are made to employer accounts to reflect the discrepancies reported by the bank?

Yes ___ No ___

CASHIERING

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

6. Does the state have internal controls to assure that the State accounting system is adjusted to reflect dishonored-check contribution payments?
Yes ___ No ___
7. Does the state have internal controls to assure that the employer's account is adjusted to reflect dishonored-check contribution payments?
Yes ___ No ___

VT: (Verification Test) For each bank used by the state, select a bank reconciliation statement(s) (or statement from comptroller's office citing state banking activities) for one month from the past 12 months. Track all entries (e.g., deposits, debit for dishonored checks, credit memorandums resulting from coding errors, or other adjustments to deposits) back to the deposit record to assure that all appropriate action was taken. Exclude from this test transfer of funds, employer refund activity or any benefit payment activity.

NOTE *If the state does not receive a traditional bank statement, determine the means by which it acquires a record of banking transactions. Consult with the Regional Office to develop an approach to conducting the VT using the documents available.*

SYSTEMS REVIEW QUESTIONS

8. Does the State have procedures to assure timely deposit of all contribution payments?

Yes ___ No ___

VS:(Question 8 _____)

9. *Does the State sort contribution payments and source documents as follows?

Yes No

- a. *Timely reports
- b. *Untimely reports
- c. *Reports with liability reported, payment enclosed
- d. *Reports with liability reported, no payment enclosed
- e. *Reports with no wages, no liability due.....
- f. *Reports with excess wage only, no liability due.....
- g. *Other items that can not be processed immediately
(e.g., Correspondence, etc.)

10. *Does the State have procedures to give priority to depositing high dollar contribution payments?

Yes ___ No ___

If yes, describe in the narrative at the end of this section.

SYSTEMS REVIEW QUESTIONS

11. Does the State have a procedure for problem items that require special handling (e.g., reports received with no employer account number, irregular contribution payments, etc.), that assures prompt follow-up and deposit of payments? (Example: process to place items in a suspense account/exception file for follow-up).

Yes ___ No ___

a. If yes, does the State have procedures to assure that items placed in the above accounts/files are ultimately handled and posted as appropriate?

Yes ___ No ___

VT: (Verification Test) Conduct the following test and note your findings in the space below. At the beginning of the quarter, identify 12-15 employer contribution payments in the "suspense account/exception file". At the end of the quarter, review the records to determine the disposition of the items.

If an item has not yet been cleared, determine whether or not procedures have been followed thus far.

For items that have been cleared, determine if procedures were followed correctly and timely (e.g., payments were posted to the proper employers' accounts within the time frame required by the State, or money was correctly refunded or transferred to the proper State agency).

NOTE: Reviewers who cannot conduct this test because the State does not use exception files/suspense accounts must contact their Regional Office for further instructions.

CASHIERING

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

12. Does the State have a procedure to assure prompt transfer of monies from the Clearing Account into the UTF?

Yes___ No___

VS: (Question 12 _____)

13. *Does the State accept Electronic Fund Transfers (EFT) for contribution payments?

Yes___ No___

14. Does the State have system procedures or internal controls to assure that employer accounts are properly posted to reflect:

Yes No N/A

a. Payments received in paper form (checks/cash)?

b. Payments received via EFT?.....

(N/A is only appropriate if Question #13 is answered "No").

VS: (Question 14 _____)

15. *What is the estimated average time to credit (apply) monies to the appropriate employer account?

Number of days _____

CASHIERING

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

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

Yes ___ No ___

17. 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 following these questions.

VS: (Question 16 _____)

CASHIERING

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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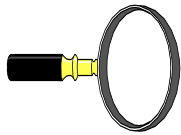
CASHIERING

PROGRAM REVIEW

SYSTEMS REVIEW

Review of Completed Work

For Cashiering function, the State should be conducting systematic reviews of completed work to assure accuracy and timeliness. The review should include contribution payments posted to employer accounts as well as deposit activity.



The reviewer will consider the kind of supervisory program and/or quality assurance review the State uses to assess the Cashiering function. The review procedure may differ for new employees.

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 supervisory and/or quality assurance review, describe how quality is assured in the Cashiering unit.

For staff members involved in the Cashiering function, 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 ConductedY/N
a. Timeliness of deposit of contribution payments.						
b. Reconciliation of bank statements and resolution of discrepancies.						
c. Proper handling of NSF checks, including adjustments to State deposit records and individual employer accounts.						
d. Timely and accurate clearance of items from suspense/exception files.						
e. Accounting of TAX cash receipt books.						

VS: (Question 6 _____)

*Informational

CASHIERING

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

7. 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 following these questions.

VS: (Question 7 _____)

CASHIERING

PROGRAM REVIEW

SYSTEMS REVIEW NARRATIVE

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

Question Answers to "If yes, describe" and "Other":
Number

CASHIERING

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

Additional Controls

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

Yes___ No___

If yes, describe below.

2. * Are there any exemplary practices for the Cashiering function?

Yes___ No___

If yes, describe below.

CASHIERING

Non-State Entities

PROGRAM REVIEW

*Review of Non-State Cashiering Activities
(Bank Lockbox or non-State Agency)*

***THE STATE USES A BANK LOCKBOX OR NON-STATE AGENCY TO PERFORM CASHIERING ACTIVITIES:**

YES ___ NO ___

If yes, continue to the next page. If no, this concludes the Systems Review.

SYSTEMS REVIEW

Recorded Information and Instructions

The State should have a contract with the bank or non-State agency that performs its Cashiering activities. The contract should specify all the procedures and controls that are needed to assure that contribution payments are processed timely and accurately, that information and unprocessed contribution payments and documents are forwarded to the State, that deposits are made to the Clearing Account in a timely manner, and that transfers are made to the UTF timely. The State should also have methods to verify that the contractual requirements are being met.

The reviewer should review the contract and visit the location(s) where the Cashiering activity takes place (bank or other agency) to determine that the operation is fulfilling the contract requirements. The reviewer should also review the process to assure that contribution payments are being processed timely and accurately and that information, unprocessed contribution payments and documents are forwarded to the State.

In the Narrative Section following the questions, explain "Other" responses and "Compensating Controls". Identify the question being explained by referencing the number and section.

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

CHAPTER FOUR

CASHIERING

Non-State Entities

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. *Cashiering activities are performed by:
 - a. * Bank
 - b. * Non-State AGENCY (e.g., Dept. of Revenue)

2. Does the Contract and/or related document(s) that detail services to be provided, contain provisions for the following:

Yes No

 - a. Frequency of deposit?
 - b. Security?
 - c. Accuracy of data provided to State?
 - d. Promptness of data provided to State?
 - e. Accessibility of records?
 - f. On-site review by State?
 - g. Frequency of mail pick-up?
 - h. *Disaster Recovery?

VS: (Question 2 _____)

3. 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 following these questions

VS:(Question 3 _____)

SYSTEMS REVIEW NARRATIVE

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

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Question Answers to "If yes, describe" and "Other":
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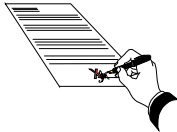
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SYSTEMS REVIEW

Recording of Transactions and Events

The contract should specify procedures and controls to assure that employer contribution payments are accurately accounted for and that bank deposits are accurate and reconciled. Whether the Non-State Entity system is automated or manual, it should provide an audit trail that leads from source documents to records of receipts and to the deposit of monies into the UTF.

The reviewer must determine whether there are systems to assure that records of receipt and processing of employer contribution payments are accurately and promptly recorded. An audit trail should be in place leading to support documentation.



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 the Non-State Entity does not provide a record of monies received by employers and a record of deposit activities, explain how the State is assured that the accounts are accurately maintained and how the State is assured that the Non-State Entity is adhering to the contract requirements.

SYSTEMS REVIEW QUESTIONS

1. Does the Non-State Entity have a method to prove untimely employer reporting, such as retaining untimely envelopes or filming/imaging of the envelopes to document untimely reports and payments?

Yes ___ No ___

VS: (Question 1 _____)

2. Does the State have procedures to verify that items forwarded to the State from the Non-State Entity are received?

Yes ___ No ___

VS: (Question 2 _____)

3. Does the endorsement or other documentation on the checks contain information that assists State staff with an audit trail for payments?

Yes ___ No ___

VS: (Question 3 _____)

SYSTEMS REVIEW QUESTIONS

4. Are copies of the contribution payments available to the State staff?

Yes ___ No ___

VS: (Question 4 _____)

5. Are controls in place to assure the accuracy of report and payment data?

Yes ___ No ___

*If yes, which controls are used?

Yes No

- *a. Calculator Tapes
- *b. Control Totals
- *c. Key Verification
- *d. On-line Edits
- *e. Batch Machine Printouts.....
- *f. Other

If other describe

VS: (Question 5 _____)

SYSTEMS REVIEW QUESTIONS

6. *Does State receive magnetic media output of information from the Non-State Entity?

Yes ___ No ___

a. If yes, does the State have a method to verify the accuracy of the information?

Yes ___ No ___

VS: (Question 6a _____.)

7. *If the State permits contribution payments via EFT, is the associated contribution report required to be submitted to the Non-State Entity?

Yes ___ No ___

a. If yes, is there a written procedure to properly credit the employer's account with the payment?

Yes ___ No ___

If yes, describe the procedure in the narrative.

VS: (Question 7a. _____.)

SYSTEMS REVIEW QUESTIONS

8. *Does the Non-State Entity process contribution report data submitted:

Yes No

- a. *On diskette?
- b. *On magnetic tape
- c. *Via Electronic Data Interchange (EDI)?.....

9. 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 following these questions

VS:(Question 9 _____)

SYSTEMS REVIEW NARRATIVE

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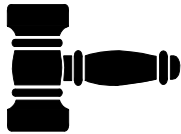
Question Number	Answers to "If yes, describe" and "Other":
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SYSTEMS REVIEW

Execution by Authorized Individuals

Since the Cashiering function requires the handling of negotiable items and cash, access to these items should be limited to authorized, assigned staff. This requirement provides security for the contribution payments and assures that the cashiering functions are performed only by authorized individuals.

The reviewer should examine the contract and the handling of contribution payments by the Non-State Entity to identify the internal controls limiting access to and providing accountability for the contribution payments.



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.

SYSTEMS REVIEW QUESTIONS

1. Is the mail opened in an area that is restricted to authorized individuals?
Yes ___ No ___
2. Is the mail sorted in an area that is restricted to authorized individuals?
Yes ___ No ___
3. Are deposits prepared in an area that is restricted to authorized individuals?
Yes ___ No ___

VS: (Questions 1, 2 & 3 _____)

4. Are specific individuals assigned and authorized to credit a deposit to the State's clearing account?
Yes ___ No ___

VS: (Question 4 _____)

SYSTEMS REVIEW QUESTIONS

5. Are specific individuals assigned and authorized to make adjustments to the State's account (e.g., debit and credit memoranda, encoding errors and dishonored contribution payments)?

Yes ___ No ___

VS: (Question 5 _____)

6. *Does the contract authorize bank or non-State personnel to transfer funds to the UTF?

Yes ___ No ___

If yes, are specific individuals authorized to make the transfer of money to the UTF?

Yes ___ No ___

VS: (Question 6a. _____)

SYSTEMS REVIEW QUESTIONS

7. 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 following these questions

VS:(Question 7 _____)

SYSTEMS REVIEW NARRATIVE

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

Question Number	Answers to "If yes, describe" and "Other":
-----------------	--

SYSTEMS REVIEW

Systems to Assure Execution of Events

For Cashiering, controls are needed to assure that the Non-State Entity provides the services detailed in the contract and that specific instructions are followed.

The reviewer will determine if such controls have been built into the contract and if the Non-State Entity is adhering to the conditions of the contract.



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.

SYSTEMS REVIEW QUESTIONS

1. Does the Non-State Entity record the amount of mail received (e.g., 20 trays) and the time the mail is received so that workload may be monitored?

Yes ___ No___

VS: (Question 1 _____)

2. *Is the mail: Yes No
- a. *delivered by the postal service?
- b. *picked up from the post office ?

3. *Once opened, is the mail sorted in the following manner:

Yes No

- a. *Timely reports?
- b. *Untimely reports?
- c. *Reports with liability reported, payments enclosed? ...
- d. *Reports with liability reported, no payment enclosed? ...
- e. *Reports with no wages, no liability due?
- f. *Reports with excess wage only, no liability due?
- g. *Contribution payments that can't be processed?
- h. *Reports that can't be processed?
- i. *Other items that can't be processed?
(e.g., Correspondence, etc.)

SYSTEMS REVIEW QUESTIONS

4. *Does the Non-State Entity perform any other sorts in the operation?

Yes ___ No ___

a. If yes, describe

5. *Are large dollar contribution payments identified and given priority handling for deposit?

Yes ___ No ___

a. If yes, describe how (e.g., color coded envelopes, separate lockbox).

6. Are envelopes examined to assure that the entire contents of the envelope are removed?

Yes ___ No ___

VS: (Question 6 _____)

SYSTEMS REVIEW QUESTIONS

7. Is there a procedure for assuring that items that cannot be processed by the Non-State Entity are forwarded to the State in a timely manner?

Yes ___ No ___

VS: (Question 7 _____)

8. *Are reports reviewed for completeness (e.g., employer identification, a comparison of amount shown to the amount remitted, etc.)?

Yes ___ No ___

9. *Do the reports remain with the contribution payments until the batches are balanced?

Yes ___ No ___

10. Is the clearing account credited on the day of deposit?

Yes ___ No ___

VS: (Question 10 _____)

11. Is the State able to determine the available balance (checks deposited that have cleared) and the book balance (available balance plus uncleared checks) at any given time during the course of a business day?

Yes ___ No ___

VS: (Question 11 _____)

SYSTEMS REVIEW QUESTIONS

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

Yes ___ No ___

13. 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 following these questions

VS:(Question 12 _____)

SYSTEMS REVIEW NARRATIVE

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

Question Number	Answers to "If yes, describe" and "Other":
-----------------	--

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

CHAPTER FOUR

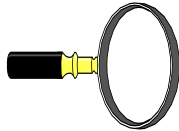
CASHIERING

Non-State Entities

PROGRAM REVIEW

Review of Completed Work

For States that use the services of Non-State Entities to perform Cashiering functions, a review of completed work would include monitoring contract provisions. The State should conduct systematic reviews of completed work by the Non-State Entity to assure accuracy and timeliness of the information. The contract should specify the quality of work expected by the State.



The reviewer will consider the kind of quality assurance review the State uses to assess the quality of work completed for it by the Non-State Entity.

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 quality assurance review, describe how quality is assured by the State in the Cashiering function.

SYSTEMS REVIEW QUESTIONS

1. Does the State monitor the performance of the contract?

Yes ___ No ___

a. *If yes, identify which provisions are monitored in the narrative following these questions.

VS: (Question 1 _____)

2. *Does State management consider the provisions of the contract adequate for the State's payment processing needs?

Yes ___ No ___

a. *If No, how is the contract deficient?

3. *Is the contract procured through a competitive bid process?

Yes ___ No ___

SYSTEMS REVIEW QUESTIONS

4. 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 following these questions.

VS:(Question 4 _____)

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 QUESTIONS

Additional Controls

1. *Are there additional internal controls or quality assurance systems exercised by the Non-State Entity that this review failed to identify?

Yes___ No ___

If yes, describe below.

2. * Are there any exemplary practices by the Non-State Entity or by the State in the dealing with the Non-State Entity?

Yes___ No ___

If yes, describe below.

ESTIMATION SAMPLE

DEPOSIT PROMPTNESS OF CONTRIBUTION PAYMENTS

ESTIMATION SAMPLE INSTRUCTIONS

Purpose/Intent

To measure the timeliness in which States deposit contribution payments into the Clearing Account.

Scope

The scope of the review will be the contribution payments received during the second quarter review period.

Universe

The universe for the Estimation Sample should include all paper payments (e.g., cash, checks) received during the review period. A sample will be drawn from the universe of paper payments to determine deposit promptness. A sample size GOAL of 500 payments (see the Sampling Table on page 111) will be selected from the paper payment universe and listed on the TPS Cashiering Sample Coding Sheet.

NOTE: In States that accept **ELECTRONIC FUND TRANSFERS (EFTs)**, the reviewer must determine the percent of contributions received via EFT. Sampling the EFT universe is not necessary since all EFTs are deposited timely. A formula has been developed that combines the measurements from the Estimation Sample (paper payment sample) and the entire EFT universe to reflect overall deposit promptness (see Step 11).

ESTIMATION SAMPLE INSTRUCTIONS

Timing/Frequency

The sample will be selected once per calendar year.

The sample selection period will cover the time during which the state receives the "peak" or "bulk" mail for the second quarter reports. (Typically, reports and payments will be due on or around July 31).

Sampling Procedures



The following are steps for selecting sample items.

STEP 1. * The reviewer will estimate the time period during which 90% of the receipts for the quarter are anticipated. This could be as long as five weeks in some states. From that time period, the reviewer should determine the five days during which the greatest amount of mail receipt is anticipated. The five days selected should be based on historical mail receipt data and the reporting due date. Reviewers must be able to support their decision. Sample items are to be selected from each of these five days. The samples may be chosen from five consecutive days or from five days chosen at random over the course of the mail receipt period. If the cashiering function is performed at a lock box, or other agency site, or located one or more hours from the state agency, the number of sampling days may be reduced to three days (with RO approval). The sample size will remain at 500 items, increasing the number of sample items to be selected each day to 167 items. (Although this modification will be accepted, it is not preferable because it reduces the representativeness of the sample items.) Note: If 90% or more of the receipts for the quarter are expected to arrive within five days or less, samples must be taken each day.

* Please refer to last page of Estimation Sample Instructions if lockbox is used.

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd. **STEP 2.** Notify Regional Office of Sample Period.

Reviewers must apprise the Regional Office of the days selected for sampling and provide information to support the selection, including an estimate of the percentage of total dollar amount that will be received during the selected period.

STEP 3. Determine if mail is presorted.

Determine if checks are sorted for special handling prior to opening the envelopes based on predetermined indicators such as color coded envelopes or a separate mailing address for large employers.

- a. If yes, see instructions and explanation in Appendix A for adjustment required before going to step 4.
- b. If no, go to step 4.

STEP 4. Determine which sample selection method will be used. The state may use either one of the following sampling methodologies: a. **Check Interval**, b. **Mail Tray**.

For either method, the goal is to select 100 sample items in each of the 5 days. This requires the reviewer to estimate the number of mail trays or amount of mail to be received per day and to establish a sample interval or the number of sample items to be selected per tray for that day. Either method can be used for selecting samples; however, the Mail Tray Method may be easiest to estimate. Once a method is selected, it should be used for all of the 5 days. Do not switch back and forth between methods. At the end of the first day, 100 sample items should have been selected, at the end of the second day, a total of 200 items should have been selected, etc.

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd.

When less than 100 items are selected on any given day, the difference between the number of sample items actually selected and 100 must be added to the goal for the following day. For example, if 90 sample items are selected on Day 1, 110 items should be selected on Day 2, for a total of 200 items within 2 days. Sample selection should be discontinued at the end of the 5th day, even if less than 500 total items have been selected.

When more than 100 items are pulled on a day and there is still more mail from which samples could be selected, the reviewer should continue to pull samples using the same sampling interval, and then reduce the number of samples selected the following day. For example, if 120 items are selected on Day 1, only 80 items should be selected on Day 2, for a total of 200 sample items within 2 days. If the 500 items target is reached during the 5th day and more mail remains, the reviewer should continue to select sample items at the same interval, until all mail received for the day has been sampled.

In some state agencies, mail is received round the clock or is received before or after the reviewer is on site. Under these circumstances, the reviewer must make a “best guess” of how much mail will be received while he or she is available and select 100 sample items from mail incoming during that time period. For example, the reviewer is on site 7:00 AM to 4:00 PM. The reviewer would select items from each mail delivery between 7:00 AM to 4:00 PM, for a total of 100 items for the day. If the number of items selected during the time the reviewer is on site is not 100, the following day’s sample selection would be adjusted to make up the difference.

To use the **Check Interval Method:**

- (1) Project the total number of contribution payments (less EFT payments) to be received during the designated time frame by one of

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd

the following methods and enter the number in the appropriate place on the Summary Sheet.

- (a) Use last year's total number of receipts (items) for the second quarter, OR
 - (b) Use the number of employers expected to report during the sample period. (Total number of active employers minus anticipated number of late filers).
- (2) Divide the projected number of contribution payments (items) by 500 to determine the Check Interval Number (Nth number).
- (3) Determine the Random Starting Number for the sample. (See instructions in Appendix A, TPS Handbook). This will be the first sample item selected.
- (4) From the Random Starting Number, count the envelopes until the Nth item is selected. Each successive item to be selected is determined by adding the Nth number to the number of the most recently selected item. (NOTE: It is permissible to measure the distance between the random start number item and the Nth item within a mail tray to select each subsequent sample item.)

To use the **Mail Tray Method:**

- (1) Estimate the number of mail trays to be received during the peak period using historical data from the Cashiering Unit and/or the Mail Room.
- (2) Determine the number of sample items to be selected from each tray by dividing 500 by the number of trays that you expect to receive.

EXAMPLE: If forty (40) trays of mail are expected during the sampling time frame, divide 500 by 40. The result is 12.5 contribution payments per tray. Alternately, make a

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd

random selection of 12 items from the first tray and 13 from the next tray during the course of the sample selection time frame.

STEP 5. Select sample contribution payments.

On each of the days of the sampling time frame, the TPS reviewer (or alternate) will go to the area where the mail is received, opened (by machine) and transferred to mail trays. The samples for the day will be selected from these trays by the method selected.

NOTE: It is more important to maintain a consistent sampling technique than it is to pull exactly 500 items. Once the sampling technique is established, do not alter it. Example: if you are pulling every 10th item and the 20th item contains no payment, do not record that account as part of the sample, but continue to count to the 30th item which will be the next item recorded as part of the sample. The sampling table on page 113 will adjust the percentage needed to determine the value-to-pass.

STEP 6. Record identifying information for each sampled payment.

For each sample contribution payment, complete Columns B, C, and D on Coding Sheet as follows.

- a. Column B:
Enter the date that the mail was received by the State or Non-State Entity.

- b. Column C:
Enter the employer account number assigned by the State. If an account number is not available, enter the employer's name or business name as shown on the report or payment.

CASHIERING

PROGRAM REVIEW

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd.

NOTE: Even when the account number is available, it may be useful to record the employer's name to assure accurate identification. This column may also be used at the discretion of the reviewer to record any other information that would be helpful in identifying the account or tracking the payment.

c. Column D:
Enter the amount of the payment.

STEP 7. Replace sample item.

Return each payment to approximately the same spot from which it was removed. There should be nothing that would indicate which payments are part of the sample except the information recorded on the Coding sheet.

STEP 8. Determine the review date.

Determine the date it is reasonable to assume that all contribution payments received during the selection period are deposited and the information is posted to the employers file. Enter the date in the appropriate blank on the Summary Sheet. Hold the list of sample contribution payments until the sample review date.

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd.

STEP 9. Review sample payments for timeliness.

Each sample payment listed on the Coding Sheet will be reviewed for timeliness of deposit.

Review appropriate records to determine the date that all payments listed were deposited (e.g., deposit slips, batch listings, cash transmittal log, employer's record, etc.).

STEP 10. Complete Coding Sheet.

For each sample contribution payment, complete the Coding Sheet as follows:

- a. Column E:
Enter the date that each payment listed was deposited.
- b. Columns F, G, H and I:
For each payment listed, complete the appropriate column (Columns F through I), using the following process.

(1) Determine the number of banking days between date the payment was received and the date the payment was deposited (do not include weekends and holidays). NOTE: Payments received one day and deposited the next day are considered to be deposited within one day, regardless of the TIME of day received or the TIME of day deposited.

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd.

(2) Based on the number of days between receipt and the date of deposit, enter the dollar amount of the sample payment either column F, G, H, or I, as follows:

Column F represents within 1 day for deposit.

Column G represents within 2 days for deposit.

Column H represents within 3 days for deposit.

Column I represents within 4 or more days for deposit.

c. For each page of the coding sheet, total amounts of each column and enter the total amount of the column on, Total Dollar This Page (line 21). The total amount of Columns F, G, H, and I should equal the total of column D.

d. For each page of coding sheet, count the number of items in each column and enter total on, Total Items This Page (line 22). The Total items of each column should equal the total number of completed lines of the Coding Sheet (cannot exceed 20 per sheet).

Complete the coding sheet for all sample items.

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd.

e. Complete Part II of the Summary page of the Coding Sheet as follows:

(1) Total amounts of Columns D, F, G, H and I from coding sheets used in sample selection.

(2) Enter column total amount on corresponding columns of Summary Coding Sheet on line 1, columns D, F, G, H and I.

(Total amounts of columns F, G, H, and I should equal total of line 1, column D).

(3) Total items for columns D, F, G, H and I for all coding sheets used in the sample selection.

(4) Enter column total items on corresponding columns of Summary Coding Sheet on line 2, columns D, F, G, H and I.

(Total number of items for column F, G, H and I should equal total of line 2, column D).

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd.

f. Complete Part III of the Summary Page. This will give the percentage for timeliness and amounts deposited.

(1) To compute the percent of amounts deposited: Divide the total dollar amounts of each column (F through I) from Part II, line 1 by the total dollars column D, line 1, then Multiply the result by 100 and round to the nearest, one decimal place.

(2) Enter the percentages in Part III, line 3, in corresponding column (F, G, H or I).

(3) To compute the percentage of items deposited: Divide the total item count of each column (F through I) from Part II, line 2 by the total item count from column D, line 2, then Multiply the result by 100 and round to the nearest, one decimal place.

(4) Enter the percentages in Part III, line 4, in corresponding column (F, G, H and I).

NOTE: The percentages of items deposited (f (3) & f (4) above) are only to aid the reviewer and State management in analyzing the level of effort in the deposit activity (items vs. dollars). No Federal requirements pertain to the number of items deposited. Federal requirements relate to dollar amounts only.

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd.

g. Complete Part IV, Summary Recap of the Summary Page. This will demonstrate the percentage of dollars deposited by day.

(1) From Part III, line 3 enter the percentages from the corresponding columns into the percentage line.

(2) From Part II, line 1, columns F, G, H, and I, enter amounts into corresponding column in Part IV.

(3) Add the percentages and amounts deposited within 3 days (lines 5, 6, and 7 of Summary Recap) and enter on line 8.

(4) Total percent column and amount column. Percentage total should be 100%. Total of amount should balance with Part II line 1, Column D total.

h. Enter the actual number of contribution payments received during the designated time frame in the appropriate blank of Part I on the Summary.

i. Subtract the projected number of payments (or trays) from the actual number of payments (or trays) and enter the difference on the designated line in Part I of the Summary Sheet.

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd.

- j. Divide the difference by the projected number of payments, and multiply the result by 100. Round to the nearest, one decimal place and enter on the space in Part I of the Summary Sheet for % of Deviation. This information should be taken into account for estimating contribution payments for the next Deposit Timeliness sample.

EXAMPLE:

Projected number of payments = 15,000

Actual number of payments = 18,000

Difference = 18,000 - 15,000 = 3,000

Percent Deviation = 3,000/15,000 = 1/5 or .20

.20 * 100 = 20%

STEP 11. Calculating Electronic Fund Transfers (EFTs).
(If no EFTS are received, go to Drawing Conclusions).

All EFTs from employers for contributions (do NOT include penalty and interest payments) received during the quarter, will be counted as being deposited timely. The following formula should be used by States that receive both paper payments and EFTs to determine overall timeliness of deposit.

$$P = (w * 100) + [(1-w)*p]$$

where w is the proportion of funds deposited electronically and p is the percentage of the paper payments received by the agency or sent to the lockbox that were deposited within 3 banking days (line 8 from Summary Recap).

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd.

EXAMPLE: If 10 percent of dollars are deposited electronically and 92 percent of dollars received as paper payments are deposited within 3 banking days, the weighted combined estimate is:

$$P = (.1 * 100) + (.9 * 92)$$

$$P = 10 + 82.8 = 92.8 \text{ percent}$$

If the percent of EFT dollars is expected to be 50% or greater, the sample size and value to pass will change. Reference the Sampling Table under Drawing Conclusions.

NOTE: While the percent of paper payments deposited in a timely manner is based on the Estimation Sample, the percent of contributions received via EFT should be based on actual EFT payments for the quarter.

Drawing Conclusions

To draw conclusions about timeliness, do the following.

Identify the size of the sample from Part II, line 2, column D of the Summary Coding sheet (Total Items).

Refer to the following Sampling Table to determine the value to pass.

TIMELINESS STANDARD: 90% or more dollars deposited within 3 days or less.

CASHIERING

PROGRAM REVIEW

ESTIMATION SAMPLE INSTRUCTIONS

Drawing Conclusions contd.

If the percentage of the total dollar amount deposited within 3 banking days (line 8 of Summary Sheet), is equal to or greater than the value to pass percentage, then the reviewer will conclude that 90% of the dollar amount of employer contribution payments have been deposited timely.

If the percentage of the total dollar amount deposited within 3 banking days is less than the "value-to-pass" percentage, then the reviewer must conclude that timely deposit of employer contribution payments cannot be confirmed.

The value to pass figure is lower than the 90% timeliness standard in order to lessen the probability of "Type I Error". Type I Error is the appearance of failure when in fact, the sample passes.

SAMPLING TABLE

<u># of Sample Items</u>	<u>Value to Pass</u>
375 - 405	87.5%
406 - 441	87.6%
442 - 481	87.7%
482 - 527	87.8%
528 - 579	87.9%
580 - 640	88.0%

ESTIMATION SAMPLE INSTRUCTIONS

Drawing Conclusions, contd.

EFT SAMPLING TABLE

<u>% EFT</u>	<u>Sample Size</u>	<u>Value to Pass</u>
50 – 54.9	400	77.4
55 – 59.9	400	75.1
60 – 64.9	400	72.2
65 – 69.9	300	68.1
70 – 74.9	300	63.2
75 – 79.9	200	55.6
80 – 84.9	200	45.5
85 – 89.9	200	29.1
90 - 100	0	N/A

If the State receives no EFTs, then this conclusion will be based solely on the outcome of the Estimation Sample. If EFTs are accepted by the agency, the conclusion will be based on a combination of the Estimation Sample results and the EFTs received by the agency. (See Step 11).

For all untimely deposits, the reviewer must provide an explanation on the Acceptance Sample Explanation Sheet.

Documentation

All electronic and paper documentation gathered to review samples (which does not include checks) must be kept until review completion and Regional Office approval of the Annual Report. This documentation should be maintained, unless the State is able to recreate the identical information used in the review.

ESTIMATION SAMPLE INSTRUCTIONS

Lockboxes

All States should make all reasonable attempts to follow the above instructions. If, however, lockboxes are not in the same geographical location as the reviewer AND it is not possible for the reviewer (or alternate) to pull the sample for the entire "peak" period, OR there are other circumstances that make it impossible to follow the instructions (i.e., around the clock processing), a modified sampling methodology may be used with the advance approval through the Regional Office.

The State must request approval through the Regional Office and give the reason for the request. Based on the information provided, the Regional Office and National Office will develop a modified sampling methodology for the State.

*TAX PERFORMANCE SYSTEM
Cashiering Estimation Sample Explanation Sheet*

State: _____ *Period Covered:* _____ *Date:* _____ *Reviewer:* _____

	<i>Identification Number</i>	<i>Explanation</i>

	TOTAL ITEMS THIS PAGE										
--	-----------------------	--	--	--	--	--	--	--	--	--	--

*Payments received one day and deposited the same day or any time the next day, are considered to be deposited within one day.

TPS CASHIERING SUMMARY SHEET

STATE _____

YEAR AND QUARTER OF REVIEW _____

REVIEWER _____

PART I PREPARATION

CHECK SAMPLE INTERVAL _____	SAMPLE SELECTION START DATE _____
RANDOM STARTING NUMBER _____	SAMPLE SELECTION END DATE _____
EFT(%) _____	

PART II SUMMARY FOR DOLLARS & ITEM COUNT (Sample Data)

		AMOUNT OF PAYMENTS		AMOUNT OF PAYMENT			
				DAY 1 AMOUNT	DAY 2 AMOUNT	DAY 3 AMOUNT	DAY 4+ AMOUNT
1	AL DOLLAR AMOUNT						
2	TOTAL ITEMS						

PART III SUMMARY FOR PERCENTAGES

3	PERCENTAGE BY CATEGORY (\$)						
4	OVERALL PERCENTAGE (ITEMS)						

PART IV SUMMARY RECAP

Line 1, Column F) _____ % (Line 3, Column F)
Line 1, Column G) _____ % (Line 3, Column G)
Line 1, Column H) _____ % (Line 3, Column H)
_____ % DEPOSITED WITHIN 3 DAYS _____ % VALUE NEEDED TO PASS (from chart)
Line 1, Column I) _____ % (Line 3, Column I)
_____ 100%



CHAPTER V

REPORT DELINQUENCY

COMPONENTS

INTRODUCTION

COMPUTED MEASURES

PROGRAM REVIEW

INTRODUCTION

REPORT DELINQUENCY

INTRODUCTION

The Report Delinquency function consists of the efforts to assist employers to comply with State laws and regulations for employment reporting, and to resolve delinquent reports. The major tasks are:

Identify delinquent employer accounts

Notify delinquent employers

Resolve delinquency by securing reports, determining non-liable, or assessing estimated monetary liability

PRIMARY OBJECTIVE

The primary objective of the Report Delinquency function is to promote compliance with State reporting requirements and secure delinquent reports timely. To accomplish this, the Report Delinquency function will need to meet two sub-objectives:

Increase the percentage of employers filing quarterly reports by promoting voluntary compliance (**Completeness**)

Take all reasonable actions to secure delinquent reports within an acceptable time period (**Timeliness and Completeness**)

PRIMARY OBJECTIVE

***Timeliness
and
Completeness***

To assess State effectiveness in promoting employer compliance, and in securing delinquent reports, Computed Measures will be generated based on data routinely reported by States. These data elements will be converted into six indicators by the TPS ADP system.

To determine whether the State is taking all reasonable actions to secure/resolve report delinquencies, a Program Review will be conducted to ascertain the existence of necessary internal controls and to determine whether or not such controls are functioning properly.

REVIEW METHODOLOGIES

Computed Measures

Computed Measures will provide indicators to measure how effective the State is in securing delinquent reports timely and in resolving delinquent reports. There are three indicators which will be used to measure contributory employers and the same three indicators will be used to measure reimbursing employers:

- A. Percent of reports filed timely.
- B. Percent of reports secured by the end of following quarter.
- C. Percent of reports secured plus delinquencies resolved within 180 days (i.e., two following quarters)

REVIEW METHODOLOGIES

Program Review

The Program Review to be conducted for Report Delinquency has two components: a Systems Review and an Acceptance Sample.

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 identify the internal controls and quality assurance systems necessary for an effective Report Delinquency operation and to verify if the State has such controls in place.

The Acceptance Sample examines the following:

- Employer Accounts Identified as Delinquent

In conjunction with the Systems Review, Acceptance Samples of delinquent report notices will be examined to confirm that the States system of controls is ensuring proper and timely delinquent report processing.

COMPUTED MEASURES

REPORT DELINQUENCY

COMPUTED MEASURES

COMPUTED MEASURES

Computed measures will provide indicators for how effective the State is in securing delinquent contribution reports timely and resolving delinquent wage reports. These measures will be generated based on data elements reported by States through routine quarterly reports. Upon implementation of the TPS program, the TPS reviewer must ensure that the State ADP system captures these data elements as defined so that the ADP system can produce output reports based on these elements.

Whether the State accumulates the data elements required for delinquency computed measures through ADP or manually, it is important that the records be maintained from the beginning. Upon full implementation of TPS, data for delinquency indicators will replace the data reported on the ETA 581 for this function. The plan is to gather the data needed from the system used to electronically report the current ETA 581 data. Appendix B explains the technical process for gathering this information.

Report Delinquency Indicators

The six indicators to measure how effective the State is in securing delinquent reports timely and resolving delinquent reports are described below:

For Contributory Employers

1. Percent of reports filed timely.
2. Percent of reports secured by end of following quarter.
3. Percent of reports secured plus delinquencies resolved within 180 days (i.e., two following quarters).

REPORT DELINQUENCY

COMPUTED MEASURES

COMPUTED MEASURES

For Reimbursing Employers

4. Percent of reports filed timely.
5. Percent of reports secured by end of following quarter.
6. Percent of reports secured plus delinquencies resolved within 180 days (i.e., two following quarters).

Indicators 1 & 4 - Timely Employers (Contributory & Reimbursing)

(The percent of employers filing reports timely).

Rationale. This indicator reflects the percent of voluntary reporting compliance. It is intended to provide a measure of State efforts to promote voluntary filing through effective publications/forms, educational programs and/or utilization of enforcement tools. Timely reports include all reports filed on or before the delinquent date established by the State for the calendar quarter.

Formula.

The average number of contributory/reimbursing employers filing
reports timely for four (581) report quarters .

The average number of active contributory/reimbursing employers for
four (581) report quarters ending one quarter earlier

REPORT DELINQUENCY

COMPUTED MEASURES

COMPUTED MEASURES

Data Elements.

The number of employers filing reports timely is reported on the ETA 581, item #6 for contributory employers and item #9 for reimbursing employers.

Active employers are those employers registered and required to file reports under the State unemployment compensation law. The number for each quarterly period should be the same as currently reported on form ETA 581. The average of the four 581 report quarters is used because reporting is based on timely reports for the quarter ending one quarter earlier.

Indicator 2 & 5 - Secured Reports (Contributory & Reimbursing)

(The percent of quarterly reports secured by the last day of the following quarter).

Rationale. This indicator measures the percent of employer reporting compliance by the level of secured reports for the preceding quarter. The "secured" definition combines voluntary employer reporting and State-influenced reporting. It excludes report delinquencies which are resolved by assessment, thereby maintaining emphasis on employer compliance and on the effect of State efforts to secure delinquent reports. This indicator is similar to the one used by Quality Appraisal as a DLA for Report Delinquency, and when analyzed with Indicator (1), Timely Employers, it should be possible to determine the effectiveness of State reporting enforcement efforts.

Formula.

The average number of contributory/reimbursing employers whose reports had
been secured by the last day of the four (581) report quarters
Average number of active contributory/reimbursing employers for the four (581)
report quarters ending one quarter earlier

Data Elements.

The number of employers whose reports have been secured by the last day of the following quarter is reported on the ETA 581, item #7 for contributory and item # 10 for reimbursing.

REPORT DELINQUENCY

COMPUTED MEASURES

COMPUTED MEASURES

The number of employer reports secured for the quarter are the number of contributory employers, or the number of reimbursable employers who by the end of the next quarter had submitted contribution reports which were due for the preceding quarter. An example would be an employer who did file a report for the first quarter by June 30, this employer would be included in the secured count for this indicator. Employers who have been issued estimated assessments for contributions due or for whom substitute contribution reports may have been generated or are found to be no longer liable, are not considered as secured.

The number of active employers is the same as Indicator 1.

Indicator 3 & 6 - Resolution of Report Delinquencies (Contributory & Reimbursing)

(The percent of reports secured plus delinquencies resolved by the last day of the second reporting period (i.e., within 180 days of the quarter ending date, or within 180 days of the date delinquency discovered for newly established accounts).

Rationale. To effectively manage accounts receivable it is important that amounts determined to be due are established on a timely basis. This indicator is intended to bridge the gap between Report Delinquency and Collections, and in effect is an indicator of "tax report delinquency" resolved via establishing a legally due and collectable amount due. Considering that for most States reports are delinquent if not filed within 30 days after the quarter ending date, and adding an additional 150 days (i.e., 60 days of the following quarter plus the 2nd following quarter), 180 days was selected as a reasonable goal for resolution of report delinquencies.

REPORT DELINQUENCY

COMPUTED MEASURES

COMPUTED MEASURES

Formula.

The average number of contributory/reimbursing employers whose report delinquencies were resolved within 180 days (two quarters)
for four (581) report quarters
Average number of active contributory/reimbursing employers for the four
(581) report quarters ending two quarters earlier

Data Elements.

The number of employers whose report delinquencies were resolved within 180 days of the quarter ending date is reported on the ETA 581 as item #8 for contributory employers and item #11 for reimbursing employers.

NOTE: Report Delinquencies are to be considered resolved upon securing reports, determining non-liable for reporting (e.g., the employer was found not to be subject, or the State decided to inactivate an active employer, or to "write off" the employer's delinquency status), or establishing a "final" assessment that is legally due and collectible. "Final" assessments are to be reported as Amounts Determined Receivable.

The number of active employers is defined the same as for Indicators 1 and 2. Because reporting is for the number of report delinquencies resolved within 180 days (six months), the average number of active employers is the four quarters ending two quarters earlier.

REPORT DELINQUENCY

COMPUTED MEASURES

COMPUTED MEASURES

Drawing Conclusions

An analysis of the results of Report Delinquency Computed Measures will provide the TPS reviewer with an indication of how effective the State is in promoting voluntary filing and in resolving report delinquency. The first and fourth indicators show the overall level of employer compliance in the State, for contributory and reimbursing employers, the second and fifth indicators show the combined effect of voluntary compliance and State-induced compliance. The third and sixth indicators combine voluntary compliance, the delinquency unit's impact, and the State's use of other methods to resolve delinquencies such as assessments or determinations of non-liability for contributory and reimbursing employers.

The reviewer should be able to make observations as a result of these indicators that would be reflected in the Systems Review. For example, the reviewer would expect that if the State had a high percentage of voluntary compliance in report filing this would be reflected by some exemplary practices. Likewise, if the number of reports resolved was low the TPS reviewer may find areas of risk in the Systems Review which are causing the problem.

Findings or trends from computed measures should be considered with Systems Review and Acceptance Sample findings in evaluating the effectiveness of the State's operations and be included in the Annual Report.

PROGRAM REVIEW

COMPONENTS

SYSTEMS REVIEW

ACCEPTANCE SAMPLES

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SYSTEMS REVIEW

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

CHAPTER FIVE

REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW INTERVIEW SHEET

Function	Reviewer
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Persons Interviewed			Documents Reviewed	
Date	Name:	Title:	Title:	Form#:

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SYSTEMS REVIEW

Recorded Information and Instructions

Recorded information and instructions for maintenance of delinquent employer accounts should include the means by which delinquent accounts are identified, the conditions under which the employers should be notified, and the resolution of such delinquencies.



The reviewer should examine recorded instructions available to the staff and compare procedures to the laws and written policies of the State to determine if the recorded information and instructions are current, accurate, and complete. The reviewer should also observe the delinquent report process and talk with employees to learn whether or not the recorded instructions are available and being used.

In the narrative section following the questions, explain any "N/A" 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 the staff becomes aware of the proper procedures to perform the tasks of the Report Delinquency function.

REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEM REVIEW QUESTIONS

1. Does the State have recorded instructions to help staff process delinquent employer information in accordance with State laws and written policies?

Yes ___ No ___

2. If yes, are the recorded information and instructions:

Yes No

- a. Current?
- b. Accurate?
- c. Complete?
- d. Readily available to staff?.....

VS:(Questions 1 and 2 _____)

3. 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:(Questio 3 _____)

REPORT DELINQUENCY

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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REPORT DELINQUENCY

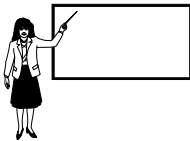
PROGRAM REVIEW

SYSTEMS REVIEW

Training

The State needs to have systems and procedures to identify training needs and deliver training to employees who perform duties within the Report Delinquency function. New employees need to learn the procedures for processing and recording delinquent reports. Existing employees benefit from periodic refresher courses and additional training when procedures change and/or quality defects occur at an unacceptably high rate.

The reviewer should respond to the following questions after discussing with management the training systems used for Report Delinquency staff, and examining the training packages utilized.



In the narrative section following the questions, explain any "N/A" responses, and describe "Compensating Controls". Identify the question being explained by referencing the number and section. If there are no formal training systems, then describe how the staff knows the laws and written policies and the proper procedures to perform the Report Delinquency function duties.

REPORT DELINQUENCY

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:

- | | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 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:

- | | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 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.

REPORT DELINQUENCY

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?.....

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.

VS: (Questions 1-4 _____)

REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

5. *In the opinion of the supervisor or manager, does the training meet the needs of the Report Delinquency 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 following these questions.

VS:(Question 6 _____)

REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW NARRATIVE

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

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Question Answers to "If yes, describe" and "Other":
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REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW

Recording of Transactions and Events

The Report Delinquency function should have procedures and controls to assure that notifications, enforced and/or stayed delinquency resolution action (such as subpoenas, court orders and final assessments) are recorded. The source information should be readily available for examination. Whether the State system is manual or automated, an audit trail should lead from the Report Delinquency data recorded in the employer account record to the information source upon which the Report Delinquency action was based.

The reviewer should become familiar with the various types of Report Delinquency actions which require an audit trail leading to the supporting documentation.



In the narrative section following the questions, explain any "Other" responses, and describe "Compensating Controls". Identify the question being explained by referencing the number and section. If the State does not maintain source documents or an audit trail, describe how it assures that correct/appropriate Report Delinquency actions have been taken.

REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the State have procedures to assure that all enforced and/or stayed Report Delinquency actions can be traced to a source document (e.g., subpoenas, assessments, and court orders)?

Yes ___ No ___

2. Can the following be identified through the audit trail:

Yes No

- a. When and how the employer was contacted to secure the delinquent report?
- b. Enforced or stayed delinquency resolution actions taken?
- c. Date enforced or stayed delinquency resolution actions were initiated?
- d. Whether money was received with the delinquent report?
- e. The date the delinquent report was received?.....

VS:(Questions 1 – 2 _____)

3. In those instances when the staff resolves a delinquent report without money does the State have a procedure that assures enforced collection action can be initiated?

Yes ___ No ___

VS:(Question 3 _____)

REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

4. Are information sources retained and accessible for State use?

Yes___ No ___

VS:(Question 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 _____)

REPORT DELINQUENCY

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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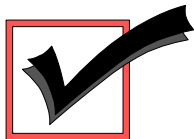
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SYSTEMS REVIEW

Systems To Assure Execution of Events

For Report Delinquency, controls should be built in to assure the execution of events for processing delinquent employer account information. Such controls may include automated or manual checks of active employer accounts to accounts for which contribution reports have been received, and program checks to assure that delinquent employers are properly identified, and that delinquency notices are mailed in a timely manner.

The reviewer should become familiar with the various systems used by the State to assure execution of events for processing delinquent employer account information.



In the narrative section following the questions, explain any "N/A" responses, and "Compensating Controls". Identify the question being explained by referencing the number and section. If the State does not have internal controls or safeguards, describe how it assures that delinquent employers are properly identified and notified.

REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the State have procedures and/or internal controls to assure that delinquent employers are properly identified?

Yes ___ No ___

a. *If yes, is there an automated system indicator to identify accounts that are delinquent?

Yes ___ No ___

(1) If yes, is a system check performed every time a program is changed?

Yes ___ No ___

VS:(Question 1 _____)

2. Does the State have a method to confirm the accuracy of the number of delinquent accounts identified (e.g., compare the number of active accounts against the number of reports processed, or total the number of employers that filed timely with the number of delinquency notices printed and compare it to the number of active employers on the same date)? If yes, describe in the narrative section.

Yes ___ No ___

a. If yes, does the State resolve discrepancies found?

Yes ___ No ___

REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

3. Does the State have procedures and/or internal controls to assure that delinquent employers are properly notified?

Yes ___ No ___

a. *If yes, is the procedure for issuing delinquency notices automated?

Yes ___ No ___

(1) If yes, is a system check performed every time a program is changed?

Yes ___ No ___

VS:(Question 2 & 3 _____)

4. Is there a method to suppress delinquency notices in cases of contested coverage?

Yes ___ No ___

5. Is there a method to suppress delinquency notices for accounts that have unprocessed contribution reports "in house"?

Yes ___ No ___

VS:(Question 4 & 5 _____)

REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

6. Is there a method to identify and control those delinquent employers in bankruptcy to assure:
- Yes No
- a. Reports are secured in sufficient time to file a claim for the taxes due?
 - b. Those employers continuing in business are monitored to ensure reports are filed timely?
 - c. Upon bankruptcy being closed, are unresolved delinquencies reassigned for further action?

VS:(Question 6 _____)

7. Does the State have procedures and/or internal controls to assure that follow-up actions are taken to obtain prior quarter delinquencies that are identified during current quarter processing?
- Yes ___ No ___

VS:(Question 7 _____)

REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

8. Does the State have controls which assure that staff resolve delinquent reports within specified time periods?

Yes ___ No ___

VS:(Question 8 _____)

9. Does the State have procedures that provides notification to the appropriate staff members when a delinquent report is received?

Yes ___ No ___ N/A ___

VS:(Question 9 _____)

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 _____)

REPORT DELINQUENCY

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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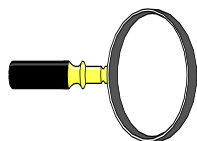
REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW

Review of Completed Work

For the Report Delinquency function, supervisory and/or quality assurance reviews are necessary to ensure that system procedures and internal controls used in identifying and notifying delinquent employers are working, and that records of report delinquency resolution activities are being maintained.



A review of completed work should be done on a regular basis for all staff members involved in processing delinquent employer account information. This review may be done on an individual basis for each staff member, or by sampling work done throughout the entire unit. The following questions are designed to determine how these reviews are conducted.

The reviewer should become familiar with the kind of review program the State uses to assess the work performed by the Report Delinquency function.

In the narrative section following the questions, explain any "other" responses. Identify the question being explained by referencing the number and section. If there is no review performed, describe how the State has reasonable assurance that delinquencies are being properly identified, notified, and resolved.

For staff members involved in the Report Delinquency process, 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 ConductedY/N
a. That the delinquent employer is being contacted timely?						
b. That a history of report delinquency resolution activities is being maintained?						
c. That State report delinquency enforcement tools are being appropriately utilized?						
d. That multiple quarter delinquencies are being worked toward being resolved.						
e. That specific requests (e.g., subpoena request, employer account updates, written requests for assistance, or notices of bankruptcy) are acted upon timely?						

VS: (Question 6)
 *Informational

REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

7. 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 7 _____)

REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW NARRATIVE

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

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Question Answers to "If yes, describe" and "Other":
Number

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REPORT DELINQUENCY

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

ADDITIONAL CONTROLS

1. *Does the State have internal controls or quality review systems in the Report Delinquency function which this review failed to identify?

Yes ___ No ___

If yes, describe below:

2. *Are there any exemplary practices for the Report Delinquency function?

Yes ___ No ___

If yes, describe below:

ACCEPTANCE SAMPLES

REPORT DELINQUENCY

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

Purpose/Intent

To determine if the State accurately identifies delinquent employer accounts.

To assure that delinquent employers are notified properly.

To determine if the State takes appropriate action to resolve delinquencies.

Scope

The scope of the review will focus on those employers who are currently delinquent for the first quarter (prior quarter delinquencies are not to be included.)

Universe

The universe to be identified for the Report Delinquency Acceptance Sample will include:

1. Employers whose delinquency is newly established for the 1st calendar quarter during the *processing period.
2. All accounts identified as delinquent once the State has passed its delinquency cut off date (both contributing and reimbursing employers).
3. Select 60 cases, or if universe is small, select the number of cases based on Table in Appendix A-III.

Note: *The processing period is the State time period during which the quarterly reports and contributions are processed.

REPORT DELINQUENCY

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

Timing/Frequency

The universe will be identified once per calendar year.

The universe should be identified prior to mailing first quarter report delinquency notices.

The sample should not be selected until the fourth quarter (approximately Nov.-Dec.), and review should not begin before November 15th of the calendar year being reviewed.

Sampling Procedures

The following steps must be taken to establish the universe and select the sample accounts:

1. List or identify the location or create a transaction file of accounts that are determined to be delinquent.
2. Identify the population of delinquent employers after the quarterly processing period has ended for the 1st calendar quarter. (Approximately May 15)
3. During the 4th quarter (Nov. - Dec.), select the sample of 60 accounts from the population identified after the end of the 1st quarter processing cycle.
4. The sample should be selected just prior to conducting the review. The review should be completed no later than December 31.

ACCEPTANCE SAMPLE INSTRUCTIONS

***Sampling Procedures
cont.***

5. If the system is automated, the Reviewer must work closely with the IT unit to ensure a thorough understanding of what, when and how the samples should be selected.
6. Appendix A describes what action needs to be taken for sampling both manual and automated systems.

Reviewing Samples

Assemble the following information for each of the cases selected for review:

1. A copy of the original delinquency notice or a facsimile generated from the electronic data that created the original delinquency notice (at a minimum it must include the employer name, account number, address, and quarter/year delinquent).
2. The electronic or paper account information related to the report delinquency in the state's employer account record.

Compare all electronic and paper source documents with the information in the employer's account record.

To answer question #1 the reviewer will need to know what cut off date the state used. The reviewer will then compare the date the employer's wage report was received by the state against the cut off date to ensure it was properly identified as delinquent.

ACCEPTANCE SAMPLE INSTRUCTIONS

Reviewing Samples

For purposes of answering question 2b. "suppressed" refers to a restrictive action taken by the State that intentionally prevents a normal work flow from being completed (e.g., not mailing a delinquency notice to an employer due to a pending appeal, or an employer that is in bankruptcy and State procedures that do not allow notices to be mailed).

Drawing Conclusions

Using this information, answer the questions on the Acceptance Sample Questionnaire.

The following questions are evaluative:

1. Proper identification of delinquent employer.
- 2.a Was the delinquent notice for the correct quarter and year.

ACCEPTANCE SAMPLE INSTRUCTIONS

***Drawing Conclusions
cont.***

- 2b. Was the notice suppressed in accordance with State procedures.
- 3. Appropriate State staff notified.
- 4.b(1) Was the assessment filed timely.
- 5. Appropriate action taken to resolve delinquency in accordance with State procedures.

A "No" answer to question #1, 2a, 2b, 3, 4b(1) or 5 means the sampled report delinquency case was not handled correctly and is not considered acceptable.

Of the 60 cases, if three or more are found to be unacceptable, then the reviewer must conclude that the State does not have reasonable assurance that employers are being properly identified and notified as being delinquent or that such delinquencies are being resolved in accordance with State procedures.

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.

REPORT DELINQUENCY

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

Identification

1. Based on the available information by the review date, did the State identify the employer's account properly as being delinquent? Yes ___ No ___

If "Yes", answer questions #2-#5.

If "No", skip #2 and #3, and answer #4 and #5.

Notification

2. Did the State issue a delinquent report notice? Yes ___ No ___

If "Yes", answer 2a.

If "No", answer 2b.

- a. Was the delinquent notice for the correct quarter\year? Yes ___ No ___

- b. Was the notice suppressed in accordance with State procedures? Yes ___ No ___

3. Were appropriate State staff notified, in accordance with established procedures, that the employer was delinquent (e.g., Field Staff, Delinquency Unit Staff or the Assessment Unit Staff)? Yes ___ No ___

REPORT DELINQUENCY

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

Resolution of Delinquency

4. *Was the report delinquency resolved?

Yes ___ No ___

If "Yes", was the delinquency resolved by:

Yes No N/A

- *a. securing a contribution report?
- *b. assessing taxes for the delinquent quarter?.....
 - (1) If yes, was the assessment made within the time period prescribed by the State?.....
- *c. inactivating the account?
- *d. posting the report, which had previously been posted to an incorrect account number, to the correct account number?.....
- *e. changing the liability effective date?
- *f. other?

Describe

5. Was appropriate action taken to resolve the report delinquency in accordance with State laws and policies?

Yes ___ No ___

TAX PERFORMANCE SYSTEM
Report Delinquency Sample Explanation Sheet

State: _____ *Period Covered:* _____ *Date:* _____ *Reviewer:* _____
Sample Type: *Acceptance* *Expanded*

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

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

CHAPTER FIVE

CHAPTER VI

COLLECTIONS

COMPONENTS

INTRODUCTION

COMPUTED MEASURES

PROGRAM REVIEW

INTRODUCTION

The Collections function consists of efforts to assist employers to comply with state laws and regulations, promote voluntary payment compliance, collect past due amounts from employers, and manage accounts receivable. The major tasks are:

Take action to collect past due payments

Suspend collection efforts on uncollectible amounts

PRIMARY OBJECTIVE

The primary objective of Collections is to promote payment compliance and manage accounts receivable. To accomplish this objective, Collections will need to meet two sub-objectives:

1. Increase the percentage of amounts due paid voluntarily (Completeness)
2. Take all reasonable actions to manage accounts receivable (Timeliness and Completeness)

COLLECTIONS

INTRODUCTION

*Timeliness
and
Completeness*

To assess state effectiveness in managing accounts receivable, Computed Measures will be generated based on data routinely reported by states. These elements will be converted into indicators by the TPS ADP system.

To determine whether the state is taking all reasonable actions to collect accounts receivable, a Program Review will be conducted to ascertain the existence of necessary internal controls and to determine whether or not such controls are functioning properly.

REVIEW METHODOLOGIES

Computed Measures

Computed Measures will provide indicators of state effectiveness in promoting payment compliance and management of accounts receivable. Indicators measuring contributory employers will also be used to measure reimbursing employers:

1. Percent of amounts due paid timely
2. Receivables declared uncollectible and/or ruled doubtful - The percent of tax due declared uncollectible and/or ruled doubtful
3. Accounts receivable at the end of the report period as a percent of tax due

REVIEW METHODOLOGIES

Program Review

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

The Systems Review covers the following topics:

Recorded Information and Instructions

Training

Recording of Transactions and Events

Execution By Authorized Individuals

Systems to Assure Execution of Events

Review of Completed Work

The Systems Review will be used to identify the internal controls and quality assurance systems necessary for an effective Collections operation and to verify if the State has such controls in place.

The Acceptance Samples examine the following:

Employer Accounts Identified with Accounts Receivable

In conjunction with the Systems Review, Acceptance Samples of completed collection accounts will be examined to confirm that States system of controls is ensuring its established procedures are being followed.

COMPUTED MEASURES

COMPUTED MEASURES

Computed Measures will provide indicators of state effectiveness in promoting payment compliance and management of accounts receivable. These measures will be generated based on data elements reported by states through routine quarterly reports. The TPS reviewer must ensure that the state ADP system captures these data elements as defined so that the ADP system can produce output reports based on these elements.

Whether the state accumulates the data elements required for Collections computed measures through ADP or manually, it is important that the records be kept from the beginning. The data is gathered from the system used to electronically report the current Form ETA 581 data. Appendix B explains the technical process for gathering this information.

Collection Indicators (Contributory)

The indicators for contributing employers that measure how effective the state is in promoting payment compliance and management of accounts receivable are described below:

1. Percent of amounts due paid timely.
2. Receivables declared uncollectible and/or ruled doubtful - The percent of tax due declared uncollectible and/or ruled doubtful.
3. Accounts receivable at the end of the report period as a percent of tax due.

Collection Indicators (Reimbursing)

The indicators for reimbursing employers that measure how effective the state is in promoting payment compliance and management of accounts receivable are described below:

1. Percent of amounts due paid timely.
2. Receivables declared uncollectible and/or ruled doubtful - The percent of tax due declared uncollectible and/or ruled doubtful.
3. Accounts receivable at the end of the report period as a percent of tax due.

The same computed measures will be used for each type of employer, contributory or reimbursing.

COMPUTED MEASURES

Indicator 1 - Amounts Paid Timely

(The percent of amounts due that were paid timely)

Rationale. This indicator measures the extent of employer voluntary payment compliance. It is intended to provide a measure of state efforts to promote payment compliance through effective publications/forms, educational programs and/or utilization of enforcement tools. It also reflects the relative magnitude of non-compliance, and provides a perspective of how much risk is involved.

Formula

Amounts Determined Receivable for four (581) report quarters.

Tax Due: Annual dollar Amounts Deposited plus Amounts Determined Receivable minus Receivables Liquidated.

Example: $\frac{1,000,000 \text{ (Determined Receivable)}}{10,000,000 \text{ (Tax Due)}} = 1 - 10\% = 90\%$

Data Elements.

The Amounts Determined Receivable should result in the four quarter total of amounts reported on ETA 581 #22 for contributory and on ETA 581 #34 for reimbursing. The amount to be included is the amount of unpaid contributions initially determined to be past due during the report quarter based on delinquent contribution reports received, audit findings, legally collectible estimates and final assessments. For reimbursable employers, the amount is the reimbursements initially determined to be past due during the report quarter based on billings to reimbursing employers which are unpaid.

COMPUTED MEASURES

Tax Due is defined as the annual amounts of dollars deposited (ETA 2112 line 11 for contributory and lines 18, 19, and 20 for reimbursable) plus Amounts Determined Receivable (ETA 581 #22 for contributory, ETA 581 #34 for reimbursing) minus Receivables Liquidated (ETA 581 #23 for contributory, ETA 581 #35 for reimbursing). This formula is recommended because it provides a more consistent and accurate picture year-to-year of amounts actually due than amounts reported as due on ES 202 reports.

Indicator 2 - Receivables Declared Uncollectible.

(Percent of tax due declared uncollectible)

Rationale. While a low percentage of amounts declared uncollectible is desirable, an increasing percentage may also be an important indicator of efforts to perfect accounts receivable inventories and write-off amounts that states have no means of collecting.

Formula

Receivables Declared Uncollectible and/or Ruled Doubtful for four (581) report quarters

Tax Due: Annual dollar Amounts Deposited plus Amounts Determined Receivable minus Receivables Liquidated.

COMPUTED MEASURES

Data Elements.

Receivables Declared Uncollectible include all amounts of past due contributions for which the agency is no longer actively seeking collection. Such amounts have been written off or moved to a suspense file and are not included in the active accounts receivable file. The amounts to be included should be the sum of the four quarters reported on ETA 581 #24 for contributory, and ETA 581 #36 for reimbursing. Receivables Ruled Doubtful include all receivables reported on the ETA 581 beyond two years. The amounts to be included should be the sum of the four quarters reported on the ETA 581 #25 for contributory and ETA 581 #37 for reimbursing.

Tax Due was previously defined and should be the same as for Indicator #1.

COMPUTED MEASURES

Indicator 3 - Unpaid Contributions/Reimbursements Due.

(Percent of accounts receivable at end of the report period to tax due).

Rationale. This indicator provides a measure of overall compliance effectiveness. To equitably assess the effectiveness of state compliance and collection efforts, a comprehensive measure will contain the amount of past due dollars as they relate to the total amount due. Long term trends due to the rise and fall in employment, wage base, and tax rates all impact the size of accounts receivable. While the fluctuations of total amounts due may be outside the state's control, the state is responsible for collecting the proportion of dollars which becomes past due. This measure will indicate the true significance of a state's accounts receivable by showing what proportion of tax is past due. Also, the rise and fall of past due amounts can be better understood when reviewed in relation to the rise and fall of total UI dollars due.

Formula

$$\text{Tax Due: } \frac{\text{Receivable Balance at end of (581) report quarter}}{\text{Annual dollar Amounts Deposited plus Amounts Determined Receivable minus Receivables Liquidated}}$$

Data Elements.

The Receivable Balance is the total amount on the ETA 581 report quarter ended date. The amounts should be the same as reported on ETA 581 #26 for contributory and ETA 581 #38 for reimbursing employers.

Tax Due was previously defined, and should be the same amount as used for Indicators 1 and 2.

COMPUTED MEASURES

The denominator for all accounts receivable indicators is recommended to be the most recently completed calendar year tax due. The reasons follow:

The same denominator means all accounts receivable indicators are comparable, both within a state as well as across states.

The indicator reports can be generated for any time period but it requires **FOUR (4) quarters**.

"Drift" due to inflation, or the trend of decreasing effective tax rates which reduces the amount of tax due is eliminated.

A more consistent picture of accounts receivable management is provided from year-to-year.

Computations will be made annually by the National Office for each indicator, for both contributory and reimbursable accounts receivable.

Drawing Conclusions.

An analysis of these results will provide an overview of how effectively the state is managing its accounts receivable. Each of the indicators should be examined separately and in relationship to the others. The TPS reviewer will find that a change in one indicator will have a particular effect on another indicator (e.g., is a decrease in accounts receivable the result of an increase in amounts written off or is that change reflected in amounts liquidated). The TPS reviewer will determine from this analysis whether the state is effectively using the collection tools at their disposal (e.g., if the turnover ratio is high does the sample reviewed reflect timely contact of employers, are liens and enforced collection action being utilized?).

Findings or trends from Computed Measures should be considered with Systems Review and Acceptance Sample findings in evaluating the effectiveness of the state's operation and be included in the Annual Report.

PROGRAM REVIEW

COMPONENTS

SYSTEMS REVIEW

ACCEPTANCE SAMPLES

SYSTEMS REVIEW

COLLECTIONS

PROGRAM REVIEW

SYSTEMS REVIEW INTERVIEW SHEET

Function	Reviewer
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Persons Interviewed			Documents Reviewed	
Date	Name:	Title:	Title:	Form#:

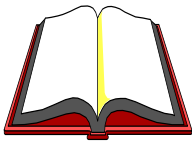
COLLECTIONS

PROGRAM REVIEW

SYSTEMS REVIEW

Recorded Information and Instructions

In the State Collections operations, procedures should be set forth for charging/non-charging of penalties, enforced collection actions, stayed collection actions, and declaring accounts uncollectible.



The reviewer should examine recorded instructions available to the staff and compare procedures to the laws and written policies of the State to determine if the recorded information and instructions are current, accurate, and complete. The reviewer should also observe the Collections process and talk with employees to learn whether or not the recorded instructions are available and being used.

In the narrative section following the questions, explain any "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 the staff becomes aware of the proper procedures to perform the tasks of the Collections function.

COLLECTIONS

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the State have recorded information and instructions to assist employees to perform Collections functions?

Yes ___ No ___

2. If yes, are all the recorded information and instructions:

Yes No

- a. Current?.....
- b. Accurate?
- c. Complete?
- d. Readily available to staff?.....

VS:(Questions 1 and 2 _____)

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

Yes ___ No ___ N/A ___

VS: (Question 3 _____)

COLLECTIONS

PROGRAM REVIEW

SYSTEMS REVIEW NARRATIVE

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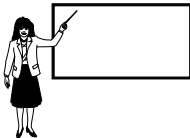
Question Number	Answers to "If yes, describe" and "Other":
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SYSTEMS REVIEW

Training

New employees need to learn the State laws, written policies and procedures for collecting account receivable, suspending collection actions when warranted, and for declaring certain accounts uncollectible. 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 respond to the following questions after discussing with management the training methods and systems used to identify and meet the Collections unit training needs.



In the narrative section following the questions, explain any "Other" responses, and describe "Compensating Controls". Identify the question being explained by referencing the number and section. If there are no formal training systems, then describe how the staff knows the laws and written policies and the proper procedures to perform the Collections function.

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 Section following these questions.

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 Section following these questions.

COLLECTIONS

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?

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.

VS: (Questions 1-4 _____)

COLLECTIONS

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

5. *In the opinion of the supervisor or manager, does the training meet the needs of the Collections 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 following these questions.

VS:(Question 6 _____)

COLLECTIONS

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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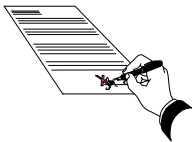
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SYSTEMS REVIEW

Recording of Transactions and Events

The Collections function should have procedures and controls to assure that notifications, enforced and/or stayed Collections actions such as lien filing, license revocation, attachments of funds, seizure of assets, successor liability, employer prosecutions, and/or bankruptcy actions are recorded and that the source information is readily available for examination. Whether the State system is manual or automated, an audit trail should lead from the Collections data recorded in the employer account record to the information source upon which the Collection action was based.

The reviewer should become familiar with the various types of Collections actions which require an audit trail leading to the supporting documentation.



In the narrative section following the questions, explain any "Other" responses, and describe "Compensating Controls". Identify the question being explained by referencing the number and section. If the State does not maintain source documents or an audit trail, describe how it assures that correct/appropriate Collections actions have been taken.

COLLECTIONS

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the State have methods to assure that enforced and/or stayed collection actions can be traced to their source (e.g., request to take enforced action, letter of appeal, notice of bankruptcy)?

Yes ___ No ___

2. Can the following be identified through the audit trail:

Yes No

- a. Employer notification(s)?
- b. Amount(s) included in tax liens?
- c. Enforced and/or stayed Collections actions?
- d. Date(s) of Collections actions?

3. Are original and amended information sources, including electronic source documentation, retained and accessible for State use?

Yes ___ No___

VS:(Questions 1 – 3 _____)

COLLECTIONS

PROGRAM REVIEW

4. 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 4 _____)

COLLECTIONS

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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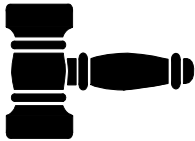
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SYSTEMS REVIEW

Execution by Authorized Individuals

The Collections function should have systems procedures or internal controls to assure that determinations for charging/non-charging of penalties, adjustments to receivable amounts, enforced and/or stayed collection actions are taken by authorized individuals.

The reviewer must become familiar with the manner in which authority is restricted and responsibility assigned to Collection staff members.



In the narrative section following the questions, explain any "Other" responses, and describe "Compensating Controls". Identify the question being explained by referencing the number and section. If the State does not require authorization for adjustments to accounts and/or initiation of enforced collection actions, and waivers of penalties, etc., describe how it prevents inaccurate/inappropriate actions.

COLLECTIONS

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Is authorization restricted to certain designated individuals for: Yes No N/A
- a. Penalty waivers?
 - b. Adjustments of amount due?
 - c. Enforced collection actions?
 - d. Classification to stayed?
 - e. Classification to uncollectible?
 - f. *Other?.....

VS:(Question 1 _____)

2. 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 2 _____)

COLLECTIONS

PROGRAM REVIEW

SYSTEMS REVIEW NARRATIVE

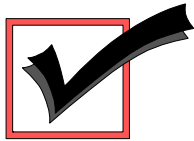
Question Number	Explanation of "N/A" and "Compensating Controls" (when deemed necessary)
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Question Number	Answers to "If yes, describe" and "Other":
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Systems to Assure Execution of Events

For Collections, controls should be in place to assure that cases are assigned and worked according to State priorities and procedures, liens are filed timely and accurately, other enforced collections actions are taken properly, stayed collection actions are handled correctly, and cases meeting appropriate criteria are declared uncollectible.

The reviewer must determine if such program management systems have been built into the Collections operation, and become familiar with automated and/or manual controls which assure collection actions are properly taken.



In the narrative section following the questions, explain any "Other" responses, and describe "Compensating Controls". Identify the question being explained by referencing the number and section. If the State does not have internal controls or safeguards, describe how it assures the appropriateness of collection actions.

COLLECTIONS

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the State have systems procedures for: Yes No
- a. Tracking case assignments?.....
 - b. Controlling lien filing dates?
 - c. Monitoring collection activity, i.e.,
identifying cases with minimal/no activity?
 - d. Controlling installment payment plans?
 - e. Ensuring that collection results (i.e.,
adjustments, changes, etc.) are posted
properly to the employers account file?.....

VS:(Question 1 _____)

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

Yes ___ No ___ N/A___

COLLECTIONS

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

3. Are Bankruptcy cases controlled to assure: Yes No
- a. Claims are filed accurately and timely?.....
 - b. Are those employers continuing in business monitored to ensure payments are made timely?.....
 - c. Unpaid cases are reassigned for appropriate collection action upon bankruptcy closing?

VS:(Question 3 _____)

4. 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 4 _____)

COLLECTIONS

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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COLLECTIONS

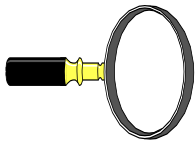
PROGRAM REVIEW

SYSTEMS REVIEW

Review of Completed Work

For the Collections function, the State should be conducting systematic review of collections cases. The information received and the action taken should be checked against the information recorded in the employer's account. A review of completed work should be done on a regular basis for all staff members involved in the collections operations. This review may be done on an individual basis for each staff member, or by sampling work done throughout the entire unit. The following questions are designed to determine how these reviews are conducted.

The reviewer must become familiar with the kind of review program the State uses to assess the work performed by the Collections function.



In the narrative section following the questions, explain any "Other" responses, and describe "Compensating Controls". Identify the question being explained by referencing the number and section. If there is no supervisory and/or quality assurance review, describe how quality is assured in the Collections unit.

For staff members involved in the Collections process, 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 (QualRev)	*4 Support (Clerical)	*5 Other	6 Review Conducted
a. That the employer is being contacted timely?						
b. That a history of collection activities is being maintained?						
c. That State collection enforcement tools are being appropriately utilized?						
d. That liens and enforced collection actions are filed properly against the correct ownership structure (i.e., sole proprietor, partnership, corporation)?						
e. That specific requests (e.g., the filing of liens, employer account updates, written requests for collection assistance, etc.) are acted upon timely?						
f. When the debt is satisfied, there is a review to ensure the release of the enforced collection action?						

VS: (Question 6 _____)

* Informational

COLLECTIONS

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

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

Yes ___ No ___ N/A ___

VS: (Question 7 _____)

COLLECTIONS

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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COLLECTIONS

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

ADDITIONAL CONTROLS

1. *Does the State have internal controls or quality assurance systems in the Collections function that this review failed to identify?

Yes ___ No ___

If yes, describe below:

2. Are there any exemplary practices for the Collections function?

Yes ___ No ___

If yes, describe below:

ACCEPTANCE SAMPLES

COLLECTIONS

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

Purpose/Intent

To assure that Accounts Receivable are being managed in accordance with State's established procedures.

Scope

The scope of the review will focus on collection cases of \$100.00 or more which are more than 30 days old. Day 1 of the 30 day count can begin the day after the account receivable was established. **Do not include accounts declared legally uncollectible.**

Universe

The universe for the Collections Acceptance Sample will include:

1. Accounts that have been established for at least 30 days. (See Note above.)
2. All accounts with \$100.00 or more in unpaid UI tax (or the State's established benchmark figure, if higher). This universe should be identified between February 1 and June 30.
3. Select 60 cases, or if universe is small, select the number of cases based on Table in Appendix A-III

Timing/Frequency

The sample will be selected once per calendar year.

The population should be identified any day in the period between February 1 and June 30 (a single snapshot of the day selected).

ACCEPTANCE SAMPLE INSTRUCTIONS

Sampling Procedures

The following steps must be taken to establish the universe and to select the sample accounts:

1. Identify the universe of all employer account receivables over 30 days old with tax due in the amount of 100.00 or more (or the State's established benchmark, if higher). Rounding up or down is permitted. The debt (or a portion) should have been created in the past two calendar years or less. This universe should be identified between February 1 and June 30.
2. In order to give the State time to follow its collections procedures, select the sample of 60 cases six months after identifying the universe.
3. Any case that was a part of the previous years' sample, whether passed or failed, must be removed from the current review. However, if new debt had been created since the previous year's snapshot date, the case can remain in the sample.
4. The review should be completed no later than March 31 of the following year.

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

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

ACCEPTANCE SAMPLE INSTRUCTIONS

Reviewing Samples

Assemble the following information from the employer's account:

1. All electronic and paper information the State has in its possession relating to the collection history of the selected account including copies of liens, enforced collection action and other supporting documents. Electronic information includes data from sources such as: the employer account file, imaged files, and data in magnetic media.
2. The employer account information on the State's computer files.

Review actions taken with the preceding 2 calendar years plus current year only.

Review timeliness of contacts for most recent quarter of liability only. The "most recent quarter" is the most recent quarter of liability preceding the "snapshot date" (any day between February 1 and June 30 of the year under review).

If multiple receivables have been established during the preceding 2 calendar years and current year time frame; review actions taken and resolutions applied towards the most recently established receivables. (Up to a maximum of the ten most recently established receivables are to be reviewed.)

When full payment is received, further review of collection action may be necessary to see if any enforced collection action was properly released.

Uncollectible accounts will be reviewed up to the point they are declared uncollectible, and to determine if they are properly written off.

Accounts in bankruptcy status will be reviewed up to the point where a claim is filed in bankruptcy court, unless the bankruptcy has already been discharged or closed. (Question #8)

ACCEPTANCE SAMPLE INSTRUCTIONS

Drawing Conclusions

Using this information, answer the questions on the Acceptance Sample Questionnaire.

The following questions are evaluative:

- #1. Is the account correctly classified.
- #2. Were successor liability procedures followed.
- #3. Were initial written notices sent timely.
- #4. Was the employer contacted other than through initial written notice.
- #5. Was an assessment filed properly.
- #5a. If yes, was the employer properly notified.
- #6. Was a lien(s) filed properly.
- #6a. If yes, was the employer properly notified
- #7. Were other actions taken properly.
- #8. Was a proof of claim filed timely if employer was in bankruptcy.
- #10. Was enforced collection action properly released.

A "NO" answer to any evaluative question must result in failure of the sampled case.

The following questions are non-evaluative:

- #4a. Was telephone contact made after written notice was mailed.
- #4b. Was the employer contacted in person.
- #4c. Was the employer contacted by mail.
- #4d. Other contacts.
- #9. Were any payments received.

ACCEPTANCE SAMPLE INSTRUCTIONS

Drawing Conclusions
cont

A "NO" answer to any evaluative question for a collection sample case will mean that the State's rules and procedures were not followed, and the case will not be considered acceptable.

If the completed review of 60 Acceptance Sample cases includes three or more unacceptable cases, then the reviewer must conclude that employer accounts receivables are not being managed in accordance with State's established procedures.

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

Questions that can be answered INA require attention. See "NOTE".

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.

ACCEPTANCE SAMPLE INSTRUCTIONS

NOTE: States provide a full range of collection techniques to be used by State staff "as appropriate", and it may be difficult for a reviewer to determine whether the staff made the correct judgment about which technique to use. In addition, actions necessary to collect vary with the amount of indebtedness and the willingness/ability of the debtors to pay. The reviewer must recognize the discretion that is given to professional staff in making decisions on the appropriate tool to use. The reviewer should give the benefit of the doubt to the decision made unless the record is clear that the decision is in violation of the State's procedures. If the case warranted an enforced action and one was taken within the State's guidelines, then the objective of the question is satisfied and the reviewer should answer "yes" to the question.

The reviewer will need to exercise care in answering Acceptance Sample questions N/A. The State's established written procedures are the primary control in determining whether the case fails or passes the review. The case is to be reviewed against State collection procedures through the point where money is received.

If for example a payment was received after only one phone call and no enforced collection action was necessary, the subsequent Acceptance Sample question dealing with assessment, liens, enforced actions and bankruptcy can be answered N/A. However, if State procedures call for a certain action to take place after a specific number of days regardless if payment is made, the reviewer must determine if this procedure was followed.

There may be situations where the documentation is not clear cut enough to warrant a "Yes" answer. It is the responsibility of the reviewer when answering questions "INA" to make a determination if that action did occur based on circumstantial facts or evidence. If such evidence does not convince the reviewer the answer should be "No".

If the Account Receivable, identified in the universe, was set up in error and was subsequently determined not to be an accounts receivable, the reviewer should answer question # 1 "No" and not answer the rest of the questions. (The A/S case would fail.) **However**, if at the time of the review, the Account Receivable which was set up in error had been determined not to be a receivable, and the error was corrected due to the State's own controls in finding the error and not due to the employer bringing it to their attention, the case should not fail, and Question 1 would be answered "Yes".

COLLECTIONS

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

Identification

1. At the time of review was the account correctly classified (e.g., "collectible", "uncollectible", "liquidated" or in "bankruptcy status")?

Yes ___ No ___

2. If there was a successor, were successor liability procedures followed?

Yes ___ No ___ N/A ___

Notification

3. Were initial written notice(s) and follow up notices sent timely for the most recent quarter of liability?

Yes ___ No ___ N/A ___ INA ___

4. Was the employer contacted other than through the "initial written notice" for the most recent quarter of liability?

Yes ___ No ___ N/A ___

If yes :

- Yes No N/A INA
- a. Were telephone contact(s) made?

 - b. Was the employer contacted in person?

COLLECTIONS

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

Notification cont.

- Yes No N/A INA
- c. Was the employer contacted by mail?
- d. Other contact(s)? If yes, describe on sample explanation sheet.

Actions Taken

5. Was an assessment(s) filed properly? Yes ___ No ___ N/A ___
a. If filed, was the employer properly notified? Yes ___ No ___ N/A ___
6. Was a lien filed properly? Yes ___ No ___ N/A ___
a. If filed, was the employer properly notified? Yes ___ No ___ N/A ___
7. Were any other enforcement actions taken properly? Yes ___ No ___ N/A ___
8. If the employer has filed a petition for bankruptcy, were appropriate actions taken to file a claim? Yes ___ No ___ N/A ___

Resolution

9. Did the State receive any payments for the receivables or adjustments to the receivables under review? Yes ___ No ___
10. If enforced collection action (including, but not limited to tax liens) was initiated, was that properly released in accordance with State policy and procedures? Yes ___ No ___ N/A ___

TAX PERFORMANCE SYSTEM
Collections Sampling Coding Sheet

State: _____

Period Covered: _____
 (6 months prior to review)

Date: _____

Reviewer: _____

Case #	Employer Id. Number	Tot. Amt Due	# Qtrs w/Liab .	1	2	3	4	4a	4b	4c	4d	5	5a	6	6a	7	8	9	10	Pass/Fail Y/N

Questions 1, 2, 3, 4, 5, 5a, 6, 6a, 7, 8, and 10 are evaluative.

Total Acceptable _____ of _____

Page _____ of _____

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.

FIELD AUDIT

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:

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

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

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

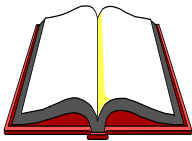
PROGRAM REVIEW

SYSTEMS REVIEW

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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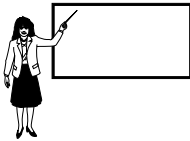
Question Number	Answers to "if yes, describe", and "Other":
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SYSTEMS REVIEW

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

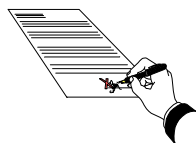
Question Explanation Of "N/A" and "Compensating Controls"
Number (when deemed necessary)

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

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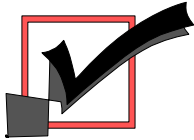
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Question Number	Answers to "if yes, describe", and "other":
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SYSTEMS REVIEW

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

PROGRAM REVIEW

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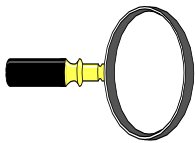
Question Number	Answers to "if yes, describe", and "other":
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SYSTEMS REVIEW

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

Due to TPS end-of-year workload concerns, reviewers may select one of the following options: audits completed in the four quarters of the calendar year under review, or audits completed the fourth quarter of the previous calendar year and first, second, and third quarters of the calendar year under review.

Universe

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

1. All audits completed on Contributory Employers during the period selected for TPS review.
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 fourth or third quarter, depending on the period selected for TPS review.

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 during the period selected for TPS review. 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 fourth or third quarter ends, depending on the period selected for TPS review.

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 IT 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 containing any additional information to support the audit decisions. This could be in paper or electronic format such as work papers or notations on a computerized audit program.

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

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.

FIELD AUDIT

PROGRAM REVIEW

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.

FIELD AUDIT

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.

FIELD AUDIT

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.

FIELD AUDIT

PROGRAM REVIEW

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>

CHAPTER VIII

ACCOUNT MAINTENANCE

COMPONENTS

INTRODUCTION

PROGRAM REVIEW

INTRODUCTION

The Account Maintenance function involves receiving, processing and producing data from other units within the tax program. The following are some of the tasks included in Account Maintenance:

Receive status determinations (new and successor changes)

Process quarterly contribution reports

Establish and issue debit and credit notices

Charge or non-charge employer accounts for benefits paid

Produce employer charge notices periodically

Produce employer tax rate notices

PRIMARY OBJECTIVE

The primary objective of the Account Maintenance function is to maintain employer accounts accurately and timely. To accomplish this, the Account Maintenance function will need to achieve four sub-objectives:

1. Maintain employer status information accurately (**Accuracy**)
2. Maintain quarterly contribution information accurately and timely (**Accuracy and Timeliness**)
3. Maintain accuracy in benefit charging (**Accuracy**)
4. Maintain employer experience rating information accurately (**Accuracy**)

ACCOUNT MAINTENANCE

INTRODUCTION

Accuracy To determine the accuracy of State Account Maintenance operations, a Program Review will be conducted to ascertain the existence of necessary internal controls and to determine whether or not such controls are functioning properly. Due to the complexity of the Account Maintenance function and the likelihood that various portions of the function are performed by different units in the State, the review has been divided into the following five components: (1) **Contribution Report processing**, (2) **Employer Debits/Billings**, (3) **Employer Credits/Refunds**, (4) **Benefit Charging**, and (5) **Employer Tax Rates**.

Timeliness To assess State effectiveness in processing quarterly contribution information timely, the Acceptance Sample for delinquent reports will ascertain whether or not the report was identified properly as being delinquent (e.g, a contribution report which was received timely but was not processed timely, would be erroneously identified as being delinquent).

REVIEW METHODOLOGIES

Program Review

The Program Review to be conducted for the Account Maintenance functions has two sections, a Systems Review and an Acceptance Sample.

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

REVIEW METHODOLOGIES

Program Review cont.

The Systems Reviews will be used to identify the internal controls and quality assurance systems necessary for effective Account Maintenance functions, and to verify that the State has such controls in place.

Acceptance Samples examine the following:

- 60 Active Contributory Accounts
- 60 Accounts with Contributions due
- 60 Accounts with Reimbursable Amounts due
- 60 Accounts with Credits/Refunds due
- 60 Accounts with Benefit Charges
- 60 Experience Rated Accounts

In conjunction with the Systems Reviews, Acceptance Samples for each component will be examined to determine the effectiveness of the controls, and confirm the accuracy of the State's outputs.

The completed Program Review will identify areas of risk or systems that may need improvements. The TPS Program Review should also identify information about exemplary practices which may be shared with other States.

NOTE: Although various components of the Account Maintenance function are closely related and may impact each other, **each component is to be assessed independently for the TPS Annual Report.**

ACCOUNT MAINTENANCE

CONTRIBUTION REPORT PROCESSING

PROGRAM REVIEW

COMPONENTS

SYSTEMS REVIEW

ACCEPTANCE SAMPLES

SYSTEMS REVIEW

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

CHAPTER EIGHT

ACCOUNT MAINTENANCE

Report processing

PROGRAM REVIEW

SYSTEMS REVIEW

Recorded Information and Instructions

In the State Contribution Report processing operation, recorded information and instructions should include procedures for processing updates to employer accounts from contribution reports and adjustments to contribution reports in accordance with State laws and written policies.



The reviewer should examine recorded instructions available to the staff and compare procedures to the laws and written policies of the State to determine if the recorded information and instructions are current, accurate, and complete. The reviewer should also observe the Contribution Report process and talk with employees to learn whether or not the recorded instructions are available and being used.

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 the staff becomes aware of the proper procedures to perform the tasks of the Contribution Report processing function.

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

CHAPTER EIGHT

ACCOUNT MAINTENANCE

Report processing

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

1. Does the State have recorded information and instructions to assist employees processing contribution reports in accordance with State laws and written policies?

Yes ___ No ___

2. If yes, are all the recorded information and instructions:

Yes No

- a. Current?
- b. Accurate?
- c. Complete?
- d. Readily available to staff?.....

VS:(Questions1&2 _____)

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 the questions.

VS: (Question3 _____)

ACCOUNT MAINTENANCE

Report processing

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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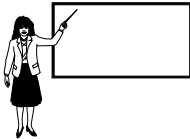
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SYSTEMS REVIEW

Training

The State needs to have systems and procedures to identify training needs and deliver training to employees who perform duties within the Contribution Report processing function. New employees need to learn the procedures for processing and recording employer remittances. Existing employees benefit from periodic refresher courses and additional training when procedures change and/or quality defects occur at an unacceptably high rate.

The reviewer should respond to the following questions after discussing with management the training systems used for Contribution Report processing staff, and after examining the training packages utilized.



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 formal training systems, then describe how the staff knows the laws and written policies and the proper procedures to perform the Contribution Report processing function duties.

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.

ACCOUNT MAINTENANCE

Report processing

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?.....

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.

VS: (Questions 1-4 _____)

SYSTEMS REVIEW QUESTIONS

5. *In the opinion of the supervisor or manager, does the training meet the needs of the Contribution Report processing 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 following these questions.

VS: (Question 6 _____)

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

CHAPTER EIGHT

ACCOUNT MAINTENANCE

Report processing

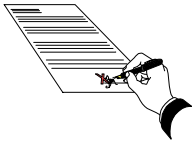
PROGRAM REVIEW

SYSTEMS REVIEW

Recording of Transactions and Events

The State should have a method to assure that updates* to employer account records (e.g., updates to taxable wages, updates to tax due, application of payments) are recorded and that the source information (e.g., contribution reports, audit reports, investigations, etc.) is readily available for examination. Whether the State system is automated or manual, an audit trail should lead from the wage, tax and payment data in the employer account record to the information source upon which the update was made.

The reviewer must become familiar with the types of updates to employer records that require an audit trail and the types of source documents used by the State to update employer accounts.



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 audit trail maintained, then explain how the State is assured that the employer account records are accurate.

*Note: Update is a transaction that either increases or decreases the employers' account balance and/or payroll amounts.

SYSTEMS REVIEW QUESTIONS

1. Does the State have a method to assure that updates to employer accounts can be traced to their source (even if source is via electronic media)?

Yes ___ No ___

2. Does the audit trail identify:

Yes No

a. The type update made to the employer account?.....

b. The date of the update?.....

c. The State employee(s) who authorized and entered the update?

3. Is source documentation required to support updates to employer accounts?

Yes ___ No ___

VS: (Questions 1 – 3 _____)

SYSTEMS REVIEW QUESTIONS

4. *Which of the following source documents does the State use to identify updates to employer accounts:

Yes No

- a. *Contribution reports?
- b. *Supplemental reports?.....
- c. *Field Audit change notices?.....
- d. *Other adjustment reports?.....
- e. *Batch control files?.....
- f. *Electronic media?
- g. *Other?.....

5. Are original and amended information sources, including electronic source documentation, retained and accessible for State use?

Yes ___ No ___

VS: (Question 5 _____)

6. 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-6 _____)

ACCOUNT MAINTENANCE

Report processing

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

Built-in reviews should be in place to assure the execution of events such as mailing contribution reports to employers who are to receive such reports, or updating and testing of the State's electronic reporting system in preparation for employer reporting; and accurate and prompt processing of information received from employers. The review may be automated (e.g., quarter and year edits, math computation edits) or manual (e.g., pre-audit or post-audit procedures).

The reviewer must become familiar with the types of built-in checks used by the State to assure employers are notified of reporting requirements (e.g., mailing of contribution reports, notification of requirements, instructions on electronic reporting procedures), and that all quarterly report and payment information is processed accurately and promptly when received.



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.

SYSTEMS REVIEW QUESTIONS

1. Does the state have procedures and/or controls to assure that each system of reporting contributions and wages (e.g., paper reporting, internet filing, telephone filing, third party electronic filing) is updated with accurate employer data at the start of each filing period?

Yes ___ No ___

Yes No N/A

- a. Does the state reconcile the count of reports that should be mailed to the number of reports that will be mailed? (E.g., subtract the number of reports suppressed from printing (electronic and third party filers, seasonal employers) from the number of active employers and compare that number to the count of mailed reports.)

Yes No N/A

- b * Before mass mailing or before electronic reports are due, does the state review the data file used to print paper reports and/or used to populate web-based sites to ensure accuracy and correct record layout? (E.g., correct quarter, year, due date)

Yes No N/A

- c. Is a small sample of employer accounts from the data file used to print paper reports and/or used to populate web-based sites reviewed to ensure employer specific data are accurate? (E.g., correct name, address, pre-printed social security numbers, tax rate)

VS: (Questions 1a and c _____)

2. Does the State have systems procedures and/or internal controls to assure accurate processing of employer contribution reports?

Yes ___ No ___

SYSTEMS REVIEW QUESTIONS

2. a. What automated internal controls does the State use to assure that employer contribution reports are posted accurately:

Yes No

- (1) Edit for correct math computation?
- (2) Employer account number edit?
(e.g., hash totals, check digits)
- (3) Quarter/year edit?
- (4) Report totals balance with wage detail listing?
- (5) *Other

VS: (Question 2 _____)

3. Does the State have system procedures or internal controls to assure that quarterly contribution reports are posted promptly to prevent the mailing of delinquent employer notices or assigning to the field?

Yes ___ No ___

4. Does the State have a method for handling system rejects?

Yes ___ No ___

SYSTEMS REVIEW QUESTIONS

4. a. If yes, is an error suspense file used? Yes ___ No ___
- (1) If yes, is the suspense file aged? Yes ___ No ___

VS: (Questions 3 and 4 _____)

5. Does the State have systems, procedures, or internal controls to verify that contribution report information (including account adjustments) received from employers, field auditors or other State units has been completed and the work can be tracked by:
- Yes No
- a. Following up on field investigations?.....
- b. Keeping a work flow log?.....
- c. *Other?.....

VS: (Question 5 _____)

ACCOUNT MAINTENANCE

Report processing

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

6. Are verification procedures in place to assure that updates to quarterly report information are accurate ("in house" review of account transactions)?

Yes ___ No ___

VS: (Question 6 _____)

7. *Does the State have an automated report processing system?

Yes ___ No ___

- a. If Yes, is a system check performed every time a program is changed?

Yes ___ No ___ N/A ___

VS: (Question 7a _____)

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

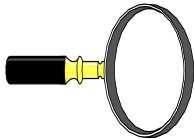
Yes ___ No ___ N/A ___

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

SYSTEMS REVIEW

Review of Completed Work

For the Contribution Report processing function, the State should be conducting systematic reviews of the accuracy of the Contribution Report information being posted to the employer's account. The information received and the action taken should be checked against the information recorded in the employer's account.



The reviewer must consider the kind of supervisory program and/or quality assurance review the State uses to assess the Contribution Report processing Unit. Is the review procedure different for new employees? If the State uses a quality assurance review, who (position and organizational location) performs it? A review of completed work should be done on a regular basis for all staff members involved in processing documents for the employer's account. This review may be done on an individual basis for each staff member, or by sampling work done throughout the entire unit.

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 supervisory and/or quality assurance review, describe how quality is assured in the Contribution Report processing function.

For all staff members involved in Contribution Reports processing, are the following components subject to some form of systematic review. If review is performed, 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 which is the evaluative question.

Component	Type of review					
	*1 Supv	*2 Peer	*3 QR Qual.Rev.	*4 Support (Clerical)	*5 Other	6 Review Conducted?
a. The mailing of the Contribution Reports?						
b. The posting of the Contribution Reports?						
c. Adjustments made to Contributions Reports?						

VS: (Question 6 _____)

* Informational

ACCOUNT MAINTENANCE

Report processing

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

7. 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 the questions.

VS: (Question 7 _____)

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

CHAPTER EIGHT

ACCOUNT MAINTENANCE

Report processing

PROGRAM REVIEW

ACCOUNT MAINTENANCE

Report processing

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

CHAPTER EIGHT

ACCOUNT MAINTENANCE

Report processing

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

Additional Controls

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

Yes ___ No ___

If yes, describe below:

2. *Are there any exemplary practices for the Contribution Reports function?

Yes ___ No ___

If yes, describe below:

ACCEPTANCE SAMPLES

ACCEPTANCE SAMPLE INSTRUCTIONS

Purpose/Intent

To assure that the contribution report processing function is accurately processing the quarterly contribution reports.

To confirm that the State maintains accurate quarterly contribution information.

To determine that employers who do not file timely are being properly identified.

Scope

The scope of the review will focus on:

1. The processing of the returns received from employers.
2. The identification of employers who should have filed a return, but failed to do so.

Universe

The universe to be identified for the Contribution Report processing function will include all contributory employers who are active on the date the universe is identified.

The universe will exclude all reimbursing employers.

Note: Employers added to the State's master files after the universe has been identified will not be added to the universe.

ACCEPTANCE SAMPLE INSTRUCTIONS

Timing/Frequency

The universe will be identified once during the calendar year.

The universe will be identified after January 31 and prior to March 31. (Single snapshot on the date selected.)

Sampling Procedures

The following described the steps to establish the universe and select the sample accounts:

1. Select universe identification date.

This will be any day after January 31 and prior to March 31.

2. Identify the universe.

The universe will include all Contributory Employers who are active on the date selected to identify the universe.

Excluded from the universe are all Reimbursing employers.

3. Select 60 samples.

The samples should be selected between May 1 and June 30. Date of selection should be after the first quarter report delinquency notice run.

- a. If an employer submitted reports for more than one quarter only the 1st quarter report will be used.

ACCEPTANCE SAMPLE INSTRUCTIONS

Sampling Procedures cont.

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 IT staff. A thorough understanding of what the universe includes and excludes and when the samples are to be selected is essential.

Reviewing Samples

Assemble the following information for the employer's account: Contribution report, payment, and any additional, related information.

1. A copy of the originally filed paper or electronic contribution report or wage detail, and any adjustment forms affecting the report. Source documents could also include images; or screen copies or unformatted/ flat files of electronic reports; or line items of employer's allocation in magnetic media/diskettes. (Also see Ch. II-19 R04/03.)
2. A copy of the payment associated with this quarterly contribution report. Source documents could include: check images or cancelled checks; or line items of employer's payment on magnetic media/ diskettes; or employer payment confirmations that are specifically associated with the sampled employer; or line items or unformatted/ flat files of payment allocation as noted in bank deposit records; or copies of ACH deposits from the state's depository bank.
3. Any additional paper or electronic information related to the employer's account.

The review should be completed as soon as possible after selecting the sample, and no later than September 30.

ACCEPTANCE SAMPLE INSTRUCTIONS

Drawing Conclusions

Using this information, answer the questions on the Acceptance Sample Questionnaire.

If no report was received by the review date, the only evaluative question to be answered is:

- #2. Identification of the employer as failing to file a timely report. (NOTE: Use N/A if no report is owed, e.g., employer was inactivated/terminated.)

If a report was received, the following questions are evaluative:

- #3a Accuracy of the employer account number.
- #3b Accuracy of the quarter and year.
- #3c Accuracy of the amount of money remitted.
- #3d Accuracy of the total gross and/or taxable wages.
- #5 Accuracy of the computation of tax due.

A "No" answer to question 2, 3(a-d), or 5 will mean that the sampled account was not processed accurately and is not considered an acceptable case.

If payment was made by the TPS review date, payment posting accuracy must be examined regardless of whether the payment accompanied the employer's report or was submitted separately. Payment should have been applied to the proper quarter, based on the state's procedure.

Of the 60 cases, if three or more are not acceptable, then the reviewer must conclude that accuracy in the State's processing of Contribution Reports cannot be confirmed.

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

ACCEPTANCE SAMPLE INSTRUCTIONS

Documentation

All documentation (which was gathered to review samples) must be kept until the completion and Regional Office approval of the TPS 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.

ACCEPTANCE SAMPLE QUESTIONNAIRE

Identification of Delinquent Employers

1. *Was a Contribution Report received for the account by the TPS review date? Yes ___ No ___

If No, answer question #2, and end review

2. Was the account appropriately identified as delinquent? Yes ___ No ___ N/A ___

Accuracy and Timeliness of Posting

3. Was the following Contribution Report and payment information posted accurately:
- | | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| a. the employer account number? | ___ | ___ |
| b. the quarter and year? | ___ | ___ |
| c. the amount of money remitted? | ___ | ___ |
| d. the total gross and/or taxable wages?
(Depending on State posting requirements) | ___ | ___ |
4. * Was the Contribution Report processed promptly according to State policy and procedures? Yes ___ No ___

Accuracy of Computations

5. Did the State correctly compute the tax due on the report? Yes ___ No ___

TAX PERFORMANCE SYSTEM
Account Maintenance - Sample Explanation Sheet
Quarterly Contribution Report processing

State: _____ *Period Covered:* _____ *Date:* _____ *Reviewer:* _____

Sample Type: *Acceptance* *Expanded*

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

ACCOUNT MAINTENANCE

EMPLOYER DEBITS/BILLINGS

PROGRAM REVIEW

COMPONENTS

SYSTEMS REVIEW

ACCEPTANCE SAMPLES

SYSTEMS REVIEW

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

CHAPTER EIGHT

ACCOUNT MAINTENANCE

Debits/Billings

PROGRAM REVIEW

SYSTEMS REVIEW

Recorded Information and Instructions

For employer billings, recorded information and instructions should include procedures for assuring that employer accounts with unpaid tax balances are properly billed. The procedures should be in accordance with State laws and written policies.



The reviewer should examine the recorded information and instructions available to the employees involved in the employer billing process and compare them to the laws and written policies.

The reviewer should also observe the employer billing process and talk with employees to learn whether or not recorded instructions are available and being used.

In the narrative section following the questions, explain "Other" responses, and describe any "Compensating Controls". Identify the question being explained by referencing the number and section. If there are no recorded instructions, describe in the narrative how the staff becomes aware of the proper procedures to perform the tasks of the Employer Debit/Billing function.

SYSTEMS REVIEW QUESTIONS

1. Does the State have recorded instructions to help employees properly bill employers in accordance with State laws and policies?

Yes ___ No ___

2. If yes, are all the recorded information and instructions:

Yes No

- a. Current?
- b. Accurate?
- c. Complete?
- d. Readily available to staff?.....

VS:(Questions 1 and 2 _____)

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 the questions.

VS: (Question 3 _____)

ACCOUNT MAINTENANCE

Debits/Billings

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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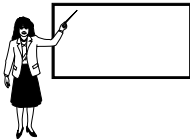
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SYSTEMS REVIEW

Training

New employees need to learn the requirements for processing employer accounts that create debits and the methods used to establish employer billings. Experienced 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 respond to the following questions after discussing with management the training systems used for the Employer Debits/Billing function, and examining the training packages utilized.

In the narrative section following the questions, explain "Other" responses, and describe "Compensating Controls". If there are no formal training systems, describe how the staff knows the laws and written policies and the proper procedures to perform the Employer Debit/Billing Function. Identify the question being explained by referencing the number and section.

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 comments.

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.

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?.....

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.

VS: (Questions 1-4) _____.

SYSTEMS REVIEW QUESTIONS

5. *In the opinion of the supervisor or manager, does the training meet the needs of the Employer Billing 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 following these questions.

VS:(Question 6 _____)

ACCOUNT MAINTENANCE

Debits/Billings

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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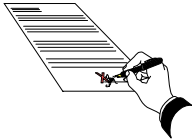
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SYSTEMS REVIEW

Recording of Transactions and Events

The State should have a method to assure that notices of employer debt (billing notices) are recorded and that the source information (e.g., contribution reports, audit reports, adjustments) is readily available for examination. Whether the Stats system is automated or manual, an audit trail should lead from the wage, tax and payment data in the employer account record to the information source upon which the update was made.

The reviewer should become familiar with the types of updates to employer records that require an audit trail and the types of source documents used by the State to update employer accounts.



In the narrative section following the questions, explain "Other" responses, and describe "Compensating Controls". If there are no recording or reconciliation of the Employer Account's Receivables, explain how the State staff is assured of the account's accuracy. Identify the question being explained by referencing the number and section.

SYSTEMS REVIEW QUESTIONS

1. Does the State have a method to assure that debits posted to employer accounts can be traced to their source (even if source is via electronic media)?

Yes ___ No ___

2. Does the audit trail identify:

Yes No

- a. The type of update made to the employer account?.....
- b. The date the debit was established?.....
- c. The State employee(s) who authorized and entered the update?

3. Is source documentation required to support the debit posted to employer accounts?

Yes ___ No ___

VS: (Questions 1 – 3 _____)

SYSTEMS REVIEW QUESTIONS

4. *Which of the following source documents does the State use to identify the posting of debits to employer accounts?

- | | | |
|----|-----------------------------------|----------------------|
| | | <u>Yes</u> <u>No</u> |
| a. | *Contribution reports? | |
| b. | *Supplemental reports?..... | |
| c. | *Field Audit change notices?..... | |
| d. | *Other adjustment reports?..... | |
| e. | *Wage Record detail?..... | |
| f. | *Electronic media? | |
| g. | *Other?..... | |

5. Are original and amended information sources, including electronic source documentation, retained and accessible for State use?

Yes ___ No ___

VS: (Questions 5 _____)

6. 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 6 _____)

SYSTEMS REVIEW NARRATIVE

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

Question Answers to "If yes, describe" and "Other":
Number

SYSTEMS REVIEW

Systems to Assure Execution of Events

Systems should be in place to assure the execution of events such as establishing tax debits, issuing billings, suppressing billings, and reconciling employer account unpaid balances to the State's Account Receivables.

The reviewer should become familiar with the systems used by the State to assure that employer debits/billings are being issued accurately.



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.

SYSTEMS REVIEW QUESTIONS

1. Does the State have system procedures and/or internal controls to identify all employers that have unpaid balances?

Yes ___ No ___

VS (Question 1 _____)

2. Does the State apply a tolerance level to differences between amounts due and received? (If the amount unpaid is within a certain dollar amount, is it considered not a receivable?)

Yes ___ No ___

- a. *If yes, which type tolerance is used?

Yes No N/A

- (a) *Dollar amount? - _____
(b) *Percent? - _____
(c) *Other?.....

3. *Does the State have an automated billing system?

Yes ___ No ___

- a. If yes, is a system check performed every time a program is changed?

Yes ___ No ___

SYSTEMS REVIEW QUESTIONS

4. Is there a method by which to suppress bills/notices?

Yes ___ No ___

VS: (Questions 2, 3 and 4 _____)

5. Is there a reconciliation of the sum of employer account unpaid balances to the State's Accounts Receivable control total (e.g., General Ledger)?

Yes ___ No ___

a. *If yes, indicate frequency. (Check all that apply).

- (1) *Daily
- (2) *Weekly
- (3) *Monthly
- (4) *Quarterly
- (5) *Semi-annually
- (6) *Annually
- (7) *Other.....

VS: (Questions 5 _____)

ACCOUNT MAINTENANCE

Debits/Billings

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

6. 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:(Questions 6 _____)

SYSTEMS REVIEW NARRATIVE

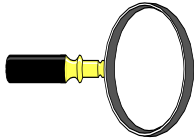
Question Explanation of "N/A" and "Compensating Controls"
Number (when deemed necessary)

Question Answers to "If yes, describe" and "Other":
Number

SYSTEMS REVIEW

Review of Completed Work

For the Employer Billing process, the State should be conducting systematic reviews of the accuracy of the debit being established and the accuracy of the notice being mailed to the employer. A review of this information should be done during each billing cycle. The following questions are designed to determine how these reviews are conducted.



The reviewer must consider the kind of supervisory program and/or quality assurance review the State uses to assess the Employer Billing processing Unit. Is the review procedure different for new employees? If the State uses a quality assurance review, who (position and organizational location) performs it? A review of completed work should be done on a regular basis for all staff members involved in processing debits established for the employer's account. This review may be done on an individual basis for each staff member, or by sampling work done throughout the entire unit.

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 supervisory and/or quality assurance review, describe how quality is assured in the Employer Debit/Billing function.

For all staff members involved in the Employer Debits/Billing process, are the following components subject to some form of systematic review. If review is performed, 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 evaluative question.

Component	Type of review					
	*1 Supv	*2 Peer	*3 QR Qual.Rev.	*4 Support (Clerical)	*5 Other	6 Review Conducted?
a. Comparing source documents to the information on the employer's account?						
b. Billing notices prior to mailing.						
c. If yes to (b), is the information on the billing notice compared to the employer's file?						

VS: (Question 6 _____)

* Informational

ACCOUNT MAINTENANCE

Debits/Billings

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

7. 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 the questions.

VS: (Question 7 _____)

ACCOUNT MAINTENANCE

Debits/Billings

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 QUESTIONS

Additional Controls

1. *Does the State have internal controls or quality assurance systems in the Employer Debit/Billing function which this review failed to identify?

Yes ___ No ___

If yes, describe below:

2. *Are there any exemplary practices for the Employer Debit/Billing function?

Yes ___ No ___

If yes, describe below:

ACCEPTANCE SAMPLES

ACCEPTANCE SAMPLE INSTRUCTIONS

Purpose/Intent

To assure accuracy in the establishment of employer underpayments (debits).

To assure that the State maintains employer debit (accounts receivable) information accurately and timely.

To assure that the State accurately issues debit memorandums or billing notices to employers for underpayments of UI contributions due.

Scope

The scope of the review will focus on:

1. Debits for **contributory employers** established during the processing period which remain unpaid at the end of the processing period.
2. Debits for **reimbursing employers** for benefits paid during the selected time period which remain unpaid at the end of the processing period.

ACCEPTANCE SAMPLE INSTRUCTIONS

Universe

There are two universes to be identified.

CONTRIBUTORY EMPLOYERS

1. All **contributory employers** who have an unpaid debit that was established during the processing period and remains unpaid at the end of the processing period. The debit may relate to any quarter, but must have been established during the processing period for the quarter selected.

The processing period is defined as the time period during which the quarterly reports and contributions are processed after the selected quarter has ended. E.g., if the 2nd quarter is selected for review, the processing period would begin July 1 and end on the cut off date the State uses to identify delinquent employer reports, approximately August 20. This definition is for the sole purpose of defining the time frame from which the universe of debits established for contributory employers is to be drawn.

2. The debit is for unpaid UI contributions. (The debit may include interest and penalty.)

ACCEPTANCE SAMPLE INSTRUCTIONS

Universe cont.

3. Excluded from this universe are:
 - a. Contributory Employers with only interest and/or penalty due.
 - b. Contributory Employers with only other State mandated taxes due, e.g., State Disability Withholdings, etc.
 - c. Contributory Employers with debits established and cleared during the processing period.
 - d. Contributory employers with debits within tolerance level established by State (amounts that State does not issue debit memorandums for).
 - e. All Reimbursing Employers

REIMBURSING EMPLOYERS

1. All **reimbursing employers** who have an unpaid debit balance for benefits paid during the period selected. The balance may include interest and penalty.

Debits for reimbursing employers are limited to those debits which are **past due**. This does not include the debits initially established on the benefit charging Statement or the initial request for payment which allows an established period of time for the reimbursing employer to pay.

ACCEPTANCE SAMPLE INSTRUCTIONS

Universe Cont.

2. Excluded from this universe are:
 - a. Reimbursing Employers with only interest and/or penalty due.
 - b. Reimbursing Employers with only other State mandated taxes due., e.g., State Disability Withholdings, etc.
 - c. Reimbursing Employers who paid their charges within the "grace period."
 - d. Reimbursing Employers within a tolerance level for which State does not issue debit (or charge) notices
 - e. All Contributory Employers.

Timing/Frequency

The two samples will be selected once per calendar year.

The universe of **contributory employers** quarter will cover the processing period for either the 1st, 2nd or 3rd quarter and will be identified immediately at the end of the processing period.

The universe of **reimbursing employers** covers one of the time periods shown in step one of the Sampling Procedures below and will be identified immediately at the end of the period of time allowed for the employer to pay from the first notice, e.g., the charge Statement.

ACCEPTANCE SAMPLE INSTRUCTIONS

Sampling Procedures

The following describes the steps to establish the universe and select the sample accounts:

1. Select period for review

For **Contributory Employers**, this will be either the 1st, 2nd, or 3rd quarter.

For **Reimbursing Employers**, the time period will be either:

- a. The entire year, if the State bills its reimbursing employers only once a year.
 - b. Either the 1st, 2nd, or 3rd quarter if the State bills its reimbursing employers quarterly.
 - c. Three consecutive months of charges if the State bills its reimbursing employer more frequently than quarterly, e.g., monthly, biweekly. (It may be possible to use only one month of charges. Contact N.O. for instructions.)
2. Identify Universes.

The universe for **contributory employers** will be identified immediately at the end of the processing period for the quarter selected.

ACCEPTANCE SAMPLE INSTRUCTIONS

Sampling Procedures Cont.

The universe for reimbursing employers will be identified immediately at the end of the "grace period" for payment of reimbursing charges.

States who do not build the universes as debits are established, and whose automated systems overwrite the pertinent fields, may find it necessary to identify the populations of each type employer at the beginning of the applicable period and again at the end of the period and then compare the two populations to isolate those employers who had a debit increase established during the applicable period that remains unpaid. These employers constitute the sampling universes.

3. Select 60 cases, or if universe is small, select the number of cases based on Table in Appendix A-III

Reviewers must investigate billing procedures and identify the appropriate sample selection date. We recommend the following:

For **contributory employers**, the samples should be selected 30 days after the universe is identified.

For **reimbursing employers**, the samples should be selected 30 days after the universe is identified.

ACCEPTANCE SAMPLE INSTRUCTIONS

Sampling Procedures

Cont.

If the State bills **reimbursing employers** more frequently than quarterly, the State should discuss sampling procedures with the Regional Office Representative.

In some States, the entire universe of reimbursing employers may be very small. In these cases, see Appendix A for number to be reviewed.

If the system is automated, the Reviewer must work closely with IT. A thorough understanding of what the universe includes and excludes and when the samples are to be selected is essential.

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

Reviewing the Samples

Assemble the following information for the employer's account:

1. A copy or image of the original debit memorandum/billing notice or a facsimile generated from the electronic data that created the original notice, and a copy or image of any payment history.
2. The original or imaged source documentation of information in the state's files that created the debit/billing e.g., contribution reports, adjustment reports, benefit charges, rate changes, etc.

ACCEPTANCE SAMPLE INSTRUCTIONS

Reviewing the Samples

Cont.

3. The electronic or paper account information related to the debit/billing in the state's employer file.

Compare all electronic and paper source documents with the information on the employer's account record.

The review should be completed within 45 days after the samples are selected.

Drawing Conclusions

Using this information, answer the questions on the Acceptance Sample Questionnaire.

The following questions on the Acceptance Sample Questionnaire are evaluative:

- #1. Establishing to proper account.
- #2. Accuracy of dollar amount and time frame.
- #4. Accuracy of the billing notice.
- #5. Accurate processing of the debit established.

A "No" answer to 1, 2, 4, or 5 will mean that the sampled account was not processed accurately and is not an acceptable case.

An inaccurate penalty or interest assessment will not cause the case to fail.

ACCEPTANCE SAMPLE INSTRUCTIONS

Of the 60 cases, if three or more are not acceptable, then the reviewer must conclude that accuracy in the Employer debit/billing processing function cannot be confirmed.

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

Documentation

All 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.

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

CHAPTER EIGHT

ACCOUNT MAINTENANCE

Debits/Billings

PROGRAM REVIEW

ACCEPTANCE SAMPLE QUESTIONNAIRE

Accuracy of Debit

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 1. Was the debit established on the proper employer's account?
If No, case fails, do not proceed with Questionnaire. | _____ | _____ | |
| 2. Was the debit for the correct: | | | |
| a. Dollar Amount? | _____ | _____ | |
| b. Quarter(s) and Year? | _____ | _____ | |

Accuracy of Billing Notices

- | | | | |
|--|-------|-------|-------|
| 3. *Was an employer billing notice issued for the debit? | _____ | _____ | |
| If <u>Yes</u> , answer question #4.
If <u>No</u> , answer question #5 | | | |
| 4. Did the billing notice accurately reflect the dollar amount receivable? | _____ | _____ | |
| 5. Was the billing notice withheld in accordance with State's established procedures? (e.g., State policy, State law, bankruptcy status, etc.) | _____ | _____ | _____ |

TAX PERFORMANCE SYSTEM
Account Maintenance - Sample Explanation Sheet
Employer Debits/Billings

State: _____ Period Covered: _____ Date: _____ Reviewer: _____
Sample Type: Acceptance Expanded

Case Number	Employer Identification Number	Explanation

ACCOUNT MAINTENANCE

CREDITS/REFUNDS

PROGRAM REVIEW

COMPONENTS

SYSTEMS REVIEW

ACCEPTANCE SAMPLES

SYSTEMS REVIEW

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

CHAPTER EIGHT

ACCOUNT MAINTENANCE

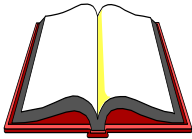
Credits/Refunds

PROGRAM REVIEW

SYSTEMS REVIEW

Recorded Information and Instructions

For employer credits/refunds, recorded information and instructions should include procedures for assuring that employer accounts with overpayments are properly credited and monies refunded when applicable. The procedures should be in accordance with State law and written policies.



The reviewer should examine recorded instructions available to the staff and compare procedures to the laws and written policies of the State to determine if the recorded information and instructions are current, accurate, and complete. The reviewer should also observe the Credit/Refund process and talk with employees to learn whether or not the recorded instructions are available and being used.

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 the staff becomes aware of the proper procedures to perform the tasks of the Employer Credits and Refunds function.

SYSTEMS REVIEW QUESTIONS

1. Does the State have recorded information and instructions to assist employees processing employer credits/refunds reports in accordance with State laws and written policies?

Yes ___ No ___

2. If yes, are all the recorded information and instructions:

Yes No

- a. Current?
- b. Accurate?
- c. Complete?
- d. Readily available to staff?.....

VS:(Questions 1 and 2 _____)

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

Yes ___ No ___ N/A ___

VS: (Question 3 _____)

ACCOUNT MAINTENANCE

Credits/Refunds

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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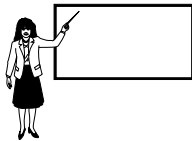
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SYSTEMS REVIEW

Training

Employees involved in processing employer credits/refunds should be given training to properly perform required tasks such as determining the amount of overpayments and issuing credit memorandums and/or refunds. New employees need to learn the procedures for processing employer overpayments, and existing employees benefit from periodic refresher courses and additional training when procedures change and/or quality defects occur at an unacceptably high rate.



The reviewer should respond to the following questions after discussing with management the training systems used for the Employer credits/refunds processing staff, and after examining the training packages utilized.

In the narrative section following the questions, explain any "Other" responses, and describe "Compensating Controls". Identify the question being explained by referencing the number and section. If there are no formal training systems, then describe how the staff knows the laws and written policies and the proper procedures to perform the credits and/or refunds function duties.

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 comments.

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.

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?.....

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.

VS: (Questions 1-4 _____)

SYSTEMS REVIEW QUESTIONS

5. *In the opinion of the supervisor or manager, does the training meet the needs of the Employer Credits/Refunds 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 following these questions.

VS: (Question 6 _____)

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

CHAPTER EIGHT

ACCOUNT MAINTENANCE

Credits/Refunds

PROGRAM REVIEW

ACCOUNT MAINTENANCE

Credits/Refunds

PROGRAM REVIEW

SYSTEMS REVIEW NARRATIVE

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

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Question Answers to "If yes, describe" and "Other":
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SYSTEMS REVIEW

Recording of Transactions and Events

The State should have a method to assure that notices of employer credits and refunds (e.g., credit memos, letters, etc.) are recorded and that the source information (e.g., contribution reports, adjustments, etc.) is readily available for examination. Whether the State system is automated or manual, an audit trail should lead from the wage, tax and payment data in the employer account record to the information source upon which the update was made.

The reviewer must become familiar with the types of updates to employer records that require an audit trail and the types of source documents used by the State to update employer accounts.



In the narrative section following the questions, explain any "Other" responses, and describe "Compensating Controls". Identify the question being explained by referencing the number and section. If there is no audit trail maintained, then explain how the State is assured that the employer credits and/or refunds are accurate.

SYSTEMS REVIEW QUESTIONS

1. Does the State have a method to assure that credits (overpayments) posted to employer accounts can be traced to their source (even if source is via electronic media)?

Yes ___ No ___

2. Does the audit trail identify:

Yes No

a. The type of update made to the employer account?.....

b. The date the credit was established?.....

c. The State employee(s) who authorized and entered the update?

3. Is source documentation required to support the credits posted to employer accounts?

Yes ___ No ___

VS: (Questions 1 – 3 _____)

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

CHAPTER EIGHT

ACCOUNT MAINTENANCE

Credits/Refunds

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

4. *Which of the following source documents does the State use to identify the posting of credits to employer accounts:

Yes No

- a. *Contribution reports?
- b. *Supplemental reports?.....
- c. *Field Audit change notices?.....
- d. *Other adjustment reports?.....
- e. *Wage record detail?
- f. *Electronic media?.....
- g. *Other?.....

5. Does the State have a method to assure that refunds issued to an employer can be traced to their source?

Yes ___ No ___

6. Does the audit trail identify:

Yes No

- a. The type of update made to the employer account?
- b. The date the refund was issued?
- c. The State employee(s) who authorized the refund?

VS: (Questions 5 – 6 _____).

SYSTEMS REVIEW QUESTIONS

7. Are original and amended information sources, including electronic source documents, retained and accessible for State use?

Yes ___ No ___

VS: (Question 7 _____)

8. 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 8 _____)

ACCOUNT MAINTENANCE

Credits/Refunds

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

Built in systems should be in place to assure the execution of events such as establishing tax credits and issuing memorandums and/or refunds.

The reviewer must become familiar with the types of built-in checks used by the State to assure the accurate processing of all employer overpayments, and the issuing of proper credits and/or refunds to such employers.



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.

SYSTEMS REVIEW QUESTIONS

1. Does the State have system procedures and/or controls to identify all employers who have overpaid taxes?

Yes ___ No ___

VS: (Question 1 _____)

2. *Does the State issue Credit Memorandums to the employers?

Yes ___ No ___ N/A ___

If Yes, answer questions 3 & 4.

If No, continue to question 5.

VS: (Question 2 _____)

SYSTEMS REVIEW QUESTIONS

3. Does the State issue Credit Memorandums via an automated system?

Yes ___ No ___ N/A ___

If Yes, when there is a change to a program in the automated system, is the new program tested for accuracy?

Yes ___ No ___

VS: (Question 3 _____)

4. Prior to issuing credit memorandums, is a review done to determine if:

Yes No N/A

- a. Math computations are accurate?
- b. All tax due has been paid?
- c. Other?.....

VS: (Question 4 _____)

SYSTEMS REVIEW QUESTIONS

5. Does the State issue Refunds to employers?

Yes ___ No ___

6. *Indicate below which method of refunds your State uses:

- a. Automatically issues refunds
- b. Issues refunds on request
- c. Both.....

If both methods are used, explain the criteria for each method.

7. *Does the State issue refunds via an automated system?

Yes ___ No ___

a. If Yes, when there is a change to a program in the automated system, is the new program tested for accuracy?

Yes ___ No ___

VS: (Questions 5 and 7a _____)

SYSTEMS REVIEW QUESTIONS

8. Prior to issuing refunds, is an internal reconciliation done to determine if:

Yes No N/A

- a. Math computations are accurate?
- b. All tax due has been paid?
- c. Required contribution reports have been received?
- d. Other?.....

VS: (Question 8 _____)

9. 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 9)

ACCOUNT MAINTENANCE

Credits/Refunds

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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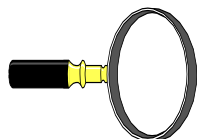
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SYSTEMS REVIEW

Review of Completed Work

For the Credits/Refunds function, the State should be conducting systematic reviews of the accuracy of the credit being established and the accuracy of the notice/refund being mailed to the employer. A review of this information should be done during each processing cycle. The following questions are designed to determine how these reviews are conducted.



The reviewer must consider the kind of supervisory program and/or quality assurance review the State uses to assess the Credits/Refunds processing unit. Is the review procedure different for new employees? If the State uses a quality assurance review, who (position and organizational location) performs it? A review of completed work should be done on a regular basis for all staff members involved in processing documents for the employer's account. This review may be done on an individual basis for each staff member, or by sampling work done throughout the entire unit.

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 supervisory and/or quality assurance review, describe how quality is assured in the Employer Credits/Refunds function.

For all staff members involved in Employer Credits/Refunds process, 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 which is the evaluative question.

Component	Type of Review						
	*1 Supv	*2 Peer	*3 QR Qual.Rev.	*4 Support (Clerical)	*5 Other	6 Review Con- ducted?	7 N/A
a. Credits established on the employer's account?							
b. Credit memorandums mailed to the employers?							
c. Refunds mailed to the employer?							

VS: (Question 6)

* Informational

SYSTEMS REVIEW QUESTIONS

7. 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 the questions.

VS: (Question 7 _____)

ACCOUNT MAINTENANCE

Credits/Refunds

PROGRAM REVIEW

SYSTEMS REVIEW NARRATIVE

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

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Question Answers to "If yes, describe" and "Other":
Number

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SYSTEMS REVIEW QUESTIONS

Additional Controls

1. *Does the State have internal controls or quality assurance systems in the Employer Credits/Refunds function which this review failed to identify?

Yes ___ No ___

If yes, describe below:

2. *Are there any exemplary practices for the Employer Credits/Refunds function?

Yes ___ No ___

If yes, describe below:

ACCEPTANCE SAMPLES

ACCEPTANCE SAMPLE INSTRUCTIONS

Purpose/Intent

To assure accuracy in the establishment of employer overpayments (credits/refunds).

To assure that the State maintains employer overpayment (credit/refund) information accurately and timely.

To assure that the State accurately issues credit memorandums and/or refunds to employers for overpayments.

Scope

The scope of the review will focus on credits established during the processing period that are still outstanding (not refunded or applied to a liability) on the date the universe is identified.

Universe

The universe for employer overpayments (credits/refunds) will include all contributory employers who have overpayments (credits) established during the processing period of the selected quarter that remains outstanding at the end of the processing period.

The overpayments may relate to any quarter but must have been established during the processing period for the quarter selected for the review.

The credit is for overpaid contributions. (The credit may include penalty and interest monies overpaid.)

ACCEPTANCE SAMPLE INSTRUCTIONS

Universe Cont.

The universe will exclude the following:

1. All contributory employers who had an overpayment (credit) that was established during the processing period, but that was cleared by the end of the processing period, either through refund or application to a liability.
2. All contributory employers with credits within the tolerance level for which the State neither refunds nor issues credit refunds.
3. All reimbursing employers.

Timing/Frequency

The sample will be selected once per calendar year.

The universe covers the processing period for either the 1st, 2nd, or 3rd quarter and will be identified immediately at the end of the processing period.

Sampling Procedures

The following describes the steps to identify the universe and select the sample accounts:

1. Select the quarter to review.

This will be either the 1st, 2nd, or 3rd quarter.

2. Identify the universe.

The universe includes all contributory employers who:

ACCEPTANCE SAMPLE INSTRUCTIONS

Sampling Procedures

Cont.

- a. Have an overpayment for any quarter (current or prior) which was established during the processing period, **and**
- b. The credit remains outstanding (not refunded or applied to a debit) at the end of the processing period.

The processing period is defined as the State time period during which the quarterly reports and contributions are processed after the selected quarter has ended. (e.g., if the 1st quarter is selected for review, the processing period would begin April 1 and end approximately June 30. This definition is for the sole purpose of defining the time frame from which the universe of credits established is to be drawn.

States who do not build the universe as credits are established, or whose automated systems make it difficult or impossible to locate the targeted credits may find it necessary to identify the population of all contributory employers at the beginning of the processing period and again at the end of the period and then compare the two populations to isolate those employers who had a credit balance established (or increased) during the defined processing period. These employers constitute the sampling universe.

ACCEPTANCE SAMPLE INSTRUCTIONS

***Sampling Procedures
Cont.***

3. Select 60 cases, or if universe is small, select the number of cases based on Table in Appendix A-III

Note: The reviewer will have to investigate procedures for issuing credits/refunds and then identify the appropriate sample selection date. (e.g., in some States there may be a lag time of 90 - 180 days before refunds are issued, etc. - thus the sample selection date would be after the 90 - 180 day time lag period.)

If the system is automated, the Reviewer must work closely with IT. A thorough understanding of what the sample includes and when it is to be extracted is essential.

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

Reviewing the Samples

Assemble the following information for each of the cases selected for review:

1. A copy or image of the original credit memorandum or a facsimile generated from the electronic data that created the original notice (or advisement, such as a line item on the electronic or paper contribution report); or a copy of the cancelled check if a refund was issued; or a computer generated listing showing the employer account number, check amount, mail date and address.

ACCEPTANCE SAMPLE INSTRUCTIONS

***Reviewing the Samples
cont.***

2. The original or imaged source documentation of information in the state's files that created the credit/refund e.g., contribution reports, remittance, adjustment reports, wage detail adjustments, rate changes, etc.
3. The electronic or paper account information related to the credit/refund in the state's employer file.

Compare all electronic and paper source documents with the information on the employer's account record.

The review should be completed within 45 days after the sample is selected.

Drawing Conclusions

Using this information, answer the questions on the Acceptance Sample Questionnaire.

The following questions are evaluative:

- #1. Establishment to proper account.
- #2. Accuracy of dollar amount and time frame.
- #4. Accuracy of the credit memorandum or refund.
- #5. Accurate processing of the established credit.
- #6. Credit memorandum/refund issued to correct address
- #7. Accuracy of withholding credit memorandum/refund

A "No" answer to #1, 2, 4, 5, 6 or 7 will mean that the sampled account was not processed accurately and is not considered an acceptable case.

ACCEPTANCE SAMPLE INSTRUCTIONS

Drawing Conclusions

Note that when a credit or refund is due, in excess of *Contd.* established tolerance limits, the employer must be given the opportunity to request a refund, or to apply the credit to future tax obligations, or to automatically receive a credit or refund. If the sampled case indicates that the state did not fulfill this obligation (for instance, no attempt was made to advise the employer of credit or refund due, or no credit/refund adjustments were made), question 7 would be answered "No," and the case would fail.

Of the 60 cases, if three or more are not acceptable, then the reviewer must conclude that accuracy in the Credit/Refund processing function 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 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.

ACCEPTANCE SAMPLE QUESTIONNAIRE

Yes No

Establishment of Credit

1. Was the credit established on the proper employer's account?
If No, case fails, do not proceed with Questionnaire. _____
2. Was the credit for the correct:
a. Dollar amount? _____
b. Quarter(s) and year? _____

Accuracy of Credit Memorandum/Refund

3. *Was a memorandum/refund issued for the credit? _____
If Yes, answer questions #4, 5, and 6.
If No, answer question #7.
4. Did the credit memorandum/refund accurately reflect the amount of the credit? _____
5. Was the credit memorandum/refund issued to the correct entity? (e.g., if 3rd party refund involved, was check made out to 3rd party) _____
6. Was credit memorandum/refund issued to correct address? _____
7. Was the credit memorandum/refund withheld in accordance with the State's established procedures? (e.g., The credit designated for future tax, etc.) _____

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

CHAPTER EIGHT

ACCOUNT MAINTENANCE

Credits/Refunds

PROGRAM REVIEW

TAX PERFORMANCE SYSTEM
Account Maintenance - Sample Explanation Sheet
 Credits and Refunds

State: _____ Period Covered: _____ Date: _____ Reviewer: _____

Sample Type: Acceptance Expanded

Case Number	Employer Identification Number	Explanation

ACCOUNT MAINTENANCE

BENEFIT CHARGING

PROGRAM REVIEW

COMPONENTS

SYSTEMS REVIEW

ACCEPTANCE SAMPLES

SYSTEMS REVIEW

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

CHAPTER EIGHT

ACCOUNT MAINTENANCE

Benefit Charging

PROGRAM REVIEW

SYSTEMS REVIEW

Recorded Information and Instructions

Recorded information and instructions should include procedures to assure that employer accounts are accurately charged for benefits paid to claimants. The procedures should be in accordance with State laws and written policies.



The reviewer should examine recorded instructions available to the staff and compare procedures to the laws and written policies of the State to determine if the recorded information and instructions are current, accurate, and complete. The reviewer should also observe the Benefit Charging process and talk with employees to learn whether or not the recorded instructions are available and being used.

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 the staff becomes aware of the proper procedures to perform the tasks of the Benefit Charging function.

SYSTEMS REVIEW QUESTIONS

1. Does the State have recorded information and instructions to assist employees in processing the benefit charges properly in accordance with State laws and written policies?

Yes ___ No ___

2. If yes, are all the recorded information and instructions:

Yes No

- a. Current?
- b. Accurate?
- c. Complete?
- d. Readily available to staff?.....

VS:(Questions 1 and 2 _____)

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 _____)

SYSTEMS REVIEW NARRATIVE

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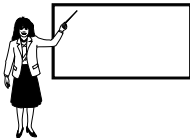
Question Number	Answers to "If yes, describe" and "Other":
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SYSTEMS REVIEW

Training

The State needs to have systems and procedures to identify training needs and deliver training to employees who perform duties within the Benefit Charging function. New employees need to learn the procedures involved in charging employer accounts for benefits paid to claimants. Existing employees benefit from periodic refresher courses and additional training when procedures change and/or quality defects occur at an unacceptably high rate.

The reviewer should respond to the following questions after discussing with management the training systems used for Benefit Charging staff, and after examining the training packages utilized.



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 formal training systems, then describe how the staff knows the laws and written policies and the proper procedures to perform the Benefit Charging function duties.

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.

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?.....

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.

VS: (Questions 1-4 _____)

SYSTEMS REVIEW QUESTIONS

5. *In the opinion of the supervisor or manager, does the training meet the needs of the Benefit Charging 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 following these questions.

VS:(Question 6 _____)

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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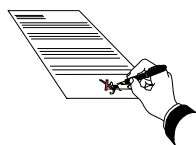
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SYSTEMS REVIEW

Recording of Transactions and Events

The State should have methods that benefit charging information (including but not limited to the decision to charge or non-charge, amount of benefits charged, the date of the charge, the claimant to whom benefits were paid, the individual who made the decision to charge, appeals, etc.) is accurately recorded and that the source information is readily available for examination. Whether the State system is automated or manual, an audit trail should lead from the benefit charging data in the employer's account record to the source document upon which the charge was based.



The reviewer must become familiar with the systems and procedures the State uses to track benefit charges to the source documents (e.g., claimant separation information, notice of charge or non-charge, benefit payment and overpayment records, adjustments to charges, appeal notices, etc.)

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 audit trail maintained, then explain how the State is assured that the employer benefit charging records are accurate.

SYSTEMS REVIEW QUESTIONS

1. Does the State have a method to track benefits charged to employer accounts for the claimant to whom benefits were paid?

Yes ___ No ___

2. Does the audit trail identify:

Yes No

- a. The amount of charges or credits (including electronic media)?.....
- b. The date of the charge or credit?
- c. The State employee(s) who made the decision to non-charge the employer?.....
- d. The documentation to support denial of the non-charging?
- e. The documentation to support the allocation of charges or credits to employers?

3. Is source documentation required to support updates to employer accounts?

Yes ___ No ___

VS: (Questions 1 – 3 _____)

SYSTEMS REVIEW QUESTIONS

4. *Which of the following source documents does the State use to identify changes to benefit charges:

Yes No

- a. *Claimant Separation Information?.....
- b. *Notice of Charge or Non-charge?.....
- c. *Benefit Payment Records?.....
- d. *Benefit Overpayment Notices?.....
- e. *Monetary Redeterminations?.....
- f. *Appeal Notices?.....
- g. *Electronic media?.....
- h. *Other Adjustment records?.....

5. Are original and amended information sources, including electronic source documentation, retained and accessible for State use?

Yes ___ No ___

VS: (Question 5 _____)

6. 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 6 _____)

ACCOUNT MAINTENANCE

Benefit Charging

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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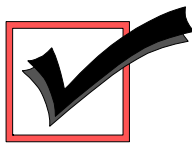
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SYSTEMS REVIEW

Systems to Assure Execution of Events

Systems should be in place to assure the execution of events such as accurately charging to the employer's account or the pool account benefits paid to claimants. Systems should also be in place to assure the reconciliation of benefits charged with benefits paid. The systems may be automated or manual.

The reviewer must become familiar with the types of built-in checks used by the State to assure the accurate charging to employer accounts for all benefits paid.



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.

SYSTEMS REVIEW QUESTIONS

1. *Does the State use an automated benefit charge system to apply charges to employer accounts or the pool account?

Yes ___ No ___

- a. If yes, is a review performed every time a program change is made?

Yes ___ No ___

2. Are verification procedures in place to assure that benefit charges are correctly made by comparing information sources to employer account transaction records?

Yes ___ No ___

VS: (Question 1 (a) and 2 _____)

3. Does the State reconcile benefits charged with benefits paid? (e.g., Is the State accounting for all benefits paid by charging either the employer account or the pool account?)

Yes ___ No ___

If Yes, answer 3a - 3d.
If No, go to question 4.

SYSTEMS REVIEW QUESTIONS

3. a. *Is the reconciliation performed by individual Social Security number (e.g., all benefit checks issued to a claimant are reconciled with the benefit charges that are charged to the claimant's employer(s) account(s) or the pool account)?

Yes ___ No ___

*If Yes, Frequency

- b. *Are aggregate benefit charges reconciled with aggregate benefits paid?

Yes ___ No ___

If Yes, Frequency

- c. *Other?

Yes ___ No ___

In the Narrative Section, describe the method the State uses to reconcile out-of-balance accounts (e.g., discrepancies charged to the general pool account or the overpayment accounts, etc. or does State track each discrepancy in order to balance the accounts).

- d. *Provide the following data for the most recently completed calendar year (or quarter) if available:

- (1) Amount of charges not reconciled to benefits paid:
(2) Total Benefits Paid:

VS: (Question 3 _____)

ACCOUNT MAINTENANCE

Benefit Charging

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

4. 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 4 _____)

SYSTEMS REVIEW NARRATIVE

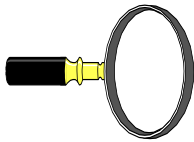
Question Number Explanation of "N/A" and "Compensating Controls"
(when deemed necessary)

Question Number Answers to "If yes, describe" and "Other":

SYSTEMS REVIEW

Review of Completed Work

For the Benefit Charging function, the State should be conducting systematic reviews for accuracy of the benefit charge information being posted to the employer's account.



A review of completed work should be done on a regular basis for all staff members involved in processing benefit charges for the employer's account. This review may be done on an individual basis for each staff member, or by sampling work done throughout the entire unit. The following questions are designed to determine how these reviews are conducted.

The reviewer must become familiar with the kind of review program the State uses to assess the work performed by the staff processing the employer's benefit charges.

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 performed, describe how quality is assured in the Employer Benefit Charging function.

For all staff members involved in Employer Benefit Charging process, are the following components subject to some form of systematic review. For Yes Answers, enter "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 which is the evaluative question.

Component	Type of review					
	*1 Supv	*2 Peer	*3 QR Qual.Rev.	*4 Support (Clerical)	*5 Other	6 Review Conducted?
a. Benefits charged to the employer's account?						
b. Benefits charged to the general pool account?						
c. Balancing of the benefits paid to the benefits charged?						

VS: (Question 6)

* Informational

ACCOUNT MAINTENANCE

Benefit Charging

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

7. 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 7 _____)

ACCOUNT MAINTENANCE

Benefit Charging

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":
-----------------	--

SYSTEMS REVIEW QUESTIONS

Additional Controls

1. *Does the State have internal controls or quality assurance systems for Employer Benefit Charging which this review failed to identify?

Yes ___ No ___

If yes, describe below:

2. *Are there any exemplary practices for the Employer Benefit Charging function?

Yes ___ No ___

If yes, describe below:

ACCEPTANCE SAMPLES

ACCEPTANCE SAMPLE INSTRUCTIONS

Purpose/Intent

To assure accuracy of benefit charges posted to employer accounts.

To assure that the State accurately maintains all data used to determine benefit charges for an employer's account.

To assure that the State accurately issues benefit charge Statements to employers.

Scope

The scope of the review will focus on benefit charges or benefit credits posted to employer accounts during the designated time period.

Where a non monetary decision has been issued on the selected UI claim, the TPS review will focus on implementation of the decision as it affects charging of the selected employer. For instance, if a decision was made to charge the employer – was that employer charged? The decision itself or its merits will not be evaluated.

Universe

The universe to be identified for the Benefit Charging Acceptance Sample will include:

1. All employers with benefits charges posted to their account, and
2. All employers with credits issued for prior charges posted to their account.

ACCEPTANCE SAMPLE INSTRUCTIONS

Timing/Frequency

The universe will be identified once during the calendar year.

The universe covers either:

1. The 1st, 2nd, or 3rd quarter, if the State issues benefit charge Statements on a quarterly basis, or
2. A year, if the State issues benefit charge Statements on a yearly basis or,
3. A month if the State issues benefit charge Statements on a monthly basis.

Sampling Procedures

The following describes the steps to identify the universe and select the sample accounts:

1. Select the time period to review.

This will be either the 1st, 2nd, or 3rd quarter, or the month or year. See Timing/Frequency above.

2. Identify the universe.

The universe includes all employers who have benefit charges and/or credits posted to their account for the selected time period.

The universe will be identified immediately after all benefit charges (or credits issued) have been posted to the employer's account for the applicable time period.

ACCEPTANCE SAMPLE INSTRUCTIONS

Sampling Procedures

Cont.

3. Select 60 samples.

The samples will be selected immediately after the Benefit Charge Statements are produced for the selected time period.

If the system is automated, the Reviewer must work closely with ADP. A thorough understanding of what the sample includes and when it is to be selected is essential.

Appendix A describes actions for sampling in both manual and automated systems.

Reviewing the Samples

Assemble the following information for the employer's account:

1. A copy of the original benefit charge Statement or a facsimile created from the ADP file that created the original Statement.
2. A print-out of the selected claimant's pay history.

ACCEPTANCE SAMPLE INSTRUCTIONS

*Reviewing the Samples
Cont.*

The claimant will be selected as follows:

- a. If there are credits on the employer's charge Statement, select the last claimant with a credit;
 - b. If there are only debits on the charge Statement, select the last claimant.
3. The documentation for the decision to charge or credit the employer's account. This documentation will consist of whatever is used in the State to substantiate the charge or credit, whether a "canned" decision, text customized for the situation, discharge or quit decisions, etc. Whatever is needed for the reviewer to ensure that the appropriate charging action was taken. Note that the decision itself or its merits will not be evaluated.
 4. The employer's account information on the State's files.

Compare all documentation with the information on the employer's Master File.

The review should be completed approximately 45 days after selecting the sample.

ACCEPTANCE SAMPLE INSTRUCTIONS

Drawing Conclusions

Using this information, answer the questions on the Acceptance Sample Questionnaire.

The following questions are evaluative:

- #1 Accuracy of the charge or credit to the employer's account.

- #2 Accuracy of
 - a. the employer's account number.
 - b. the claimant's social security number.
 - c. the time period for the charge or credit.
 - d. the dollar amount charged (or credited).

A "No" answer to question 1, 2a, 2b, 2c, or 2d will mean that the sampled account was not charged (or credited) accurately and is not considered an acceptable case.

Of the 60 cases, if three or more are not acceptable, then the reviewer must conclude that accuracy in the Employer Benefit Charging function cannot be confirmed.

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

ACCEPTANCE SAMPLE INSTRUCTIONS

Documentation

All 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.

ACCEPTANCE SAMPLE QUESTIONNAIRE

Yes No

Accuracy of Charge or Credit

1. Based upon the information available, did the State properly charge or credit the employer's account? _____

Accuracy of Charge Statement

2. Did the charge Statement accurately reflect the correct:
- a. employer's account number? _____
- b. claimant's (former employee) social security number? _____

- c. the correct period of time for the charge or credit? (e.g., were the charges for benefits paid in August posted to the 3rd quarter charge Statement?)*
- Yes No NA

- d. amount charged or credited for benefits paid? _____

*(Note: For CWC employers, time period may not be that precise.)

ACCOUNT MAINTENANCE

EMPLOYER TAX RATES

PROGRAM REVIEW

COMPONENTS

SYSTEMS REVIEW

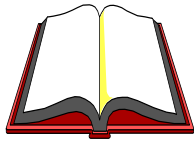
ACCEPTANCE SAMPLES

SYSTEMS REVIEW

SYSTEMS REVIEW

Recorded Information and Instructions

For Employer Tax Rates, recorded information and instructions should include procedures to assure that employer tax rates are accurately computed and assigned. The procedures should be in accordance with current State laws and State policies.



The reviewer should examine recorded instructions available to the staff and compare procedures to the laws and written policies of the State to determine if the recorded information and instructions are current, accurate, and complete. The reviewer must also observe the Employer Tax Rate process and talk with employees to learn whether or not the recorded instructions are available and being used.

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 the staff becomes aware of the proper procedures to perform the tasks of computing employer tax rates.

SYSTEMS REVIEW QUESTIONS

1. Does the State have recorded information and instructions to assist employees to properly calculate and assign employer tax rates in accordance with State laws and State policies?

Yes ___ No ___

2. If yes, are the recorded information and instructions:

Yes No

- a. Current?
- b. Accurate?.....
- c. Complete?.....
- d. Readily available to staff?

VS:(Questions 1 and 2 _____)

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 _____)

ACCOUNT MAINTENANCE

Tax Rates

PROGRAM REVIEW

SYSTEMS REVIEW NARRATIVE

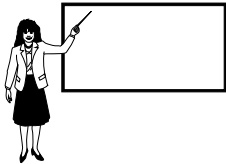
Question Number	Explanation of "N/A" and "Compensating Controls" (when deemed necessary)
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SYSTEMS REVIEW

Training

The State needs to have systems and procedures to identify training needs and deliver training to employees who perform duties within the employer tax rate unit. New employees need training to understand the procedures involved in computing and assigning the tax rates. Experienced 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 the methods and procedures the State uses to identify and meet training needs of employees involved in computing employer tax rates.



In the narrative section following the questions, explain "other" responses and exceptions to the questions. Identify the question being explained by referencing the number and section. If there are no training programs, describe how the staff know the laws, rules, written policies and proper procedures to perform the Tax Rate process.

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.

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?

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.

VS: (Questions 1-4 _____)

ACCOUNT MAINTENANCE

Tax Rates

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

5. *In the opinion of the supervisor or manager, does the training meet the needs of the employer tax rate 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 following these questions.

VS:(Question 6 _____)

ACCOUNT MAINTENANCE

Tax Rates

PROGRAM REVIEW

SYSTEMS REVIEW NARRATIVE

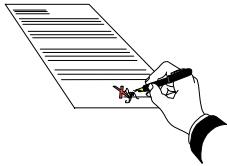
Question Number Explanation of "N/A" and "Compensating Controls"
(when deemed necessary)

Question Number Answers to "If yes, describe" and "Other":

SYSTEMS REVIEW

Recording of Transactions and Events

The State should have a method to assure that tax rates and tax rate changes are recorded and the source of the information (including, but not limited to the data used for the tax rate formula) is readily available for examination. Whether the State's system is automated or manual, an audit trail should lead from the tax rate recorded in the employer's account record to the source document upon which the rate or rate change was calculated.



The reviewer must become familiar with the systems and procedures the State uses to trace the elements used in rate computations and rate assignments to their source.

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 the State does not maintain source documents or an audit trail, describe how it assures that correct tax rate calculations have been made.

SYSTEMS REVIEW QUESTIONS

1. Does the State have a method to assure that the elements used to compute or change tax rates can be traced to their source (even if source is via electronic media)?

Yes ___ No ___

2. Does the audit trail identify the following information:

Yes No

- a. The information used to calculate rates (including surtax rates)?
- b. The date of the information used in tax calculations?
- c. The State employee who authorized changes to a tax rate?

3. Is a source document required to support tax rate changes?

Yes ___ No ___

VS: (Question 1-3 _____)

4. Are original and amended tax rate information sources, including electronic source documents, retained and readily accessible to support rate computations and assignments?

Yes ___ No ___

VS: (Question 4 _____)

ACCOUNT MAINTENANCE

Tax Rates

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

5. 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 the questions.

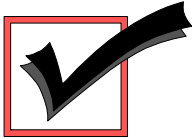
VS: (Question 5 _____)

SYSTEMS REVIEW

Systems To Assure Execution of Events

Systems should be in place to assure that every employer tax rate is accurately computed and assigned in accordance with State law and State policies. The checks may be manual or automated. Systems should also be in place to assure the elements used to calculate tax rates are maintained, and that employers are experience rated when they should be.

The reviewer must become familiar with built in systems and automated or manual controls used by the State for computing and assigning of tax rates.



In the narrative section following the questions, explain "Other" responses, and "Compensating Controls". Identify the question being explained by referencing the number and section. If the State does not have internal controls or safeguards, describe how it assures the correctness of tax rate calculations.

SYSTEMS REVIEW QUESTIONS

1. *Does the State have an automated system for calculating employer tax rates?

Yes ___ No ___

a. If Yes, is a system check performed every time there is a program change?

Yes ___ No ___

b. Is there a system check prior to mailing rate notices?

Yes ___ No ___

2. Is there a check of the math computations used in tax rate calculations?

Yes ___ No ___

VS: (Question 1 (a-b) and 2 _____)

3. Is there a control to assure that accounts which are eligible to be experienced rated are assigned an experience rate when applicable?

Yes ___ No ___

VS:(Question 3 _____)

ACCOUNT MAINTENANCE

Tax Rates

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

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

Yes ___ No ___ N/A ___

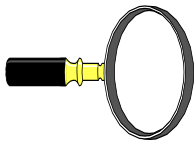
If Yes, describe in the Narrative Section following the questions.

VS: (Question 4 _____)

SYSTEMS REVIEW

Review of Completed Work

For the Employer Tax Rate function, the State should be conducting systematic reviews for accuracy of the rate calculations, and of the changes made to employer tax rates.



The reviewer must consider the kind of supervisory program and/or quality assurance review the State uses to assess the Employer Tax Rate processing unit. Is the review procedure different for new employees? If the State uses a quality assurance review, who (position and organizational location) performs it? A review of completed work should be done on a regular basis for all staff members involved in making changes to employer tax rates. This review may be done on an individual basis for each staff member, or by sampling work done throughout the entire unit.

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 supervisory and/or quality assurance review, describe how quality is assured in the Employer Tax Rate function.

For all staff members involved in Employer Tax Rate process, are the following components subject to some form of systematic review. For Yes answers, enter "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 which is the evaluative question.

Component	Type of review					
	*1 Supv	*2 Peer	*3 QR Qual.Rev.	*4 Support (Clerical)	*5 Other	6 Review Conducted?
a. Tax Rate notices issued to the employers?						
b. Changes made to employer tax rates?						

VS: (Question 6 _____)

* Informational

ACCOUNT MAINTENANCE

Tax Rates

PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

7. 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 the questions.

VS: (Question 7 _____)

ACCOUNT MAINTENANCE

Tax Rates

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":
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SYSTEMS REVIEW QUESTIONS

Additional Controls

1. *Does the State have internal controls or quality assurance systems in the Employer Tax Rate function which this review failed to identify?

Yes ___ No ___

If yes, describe below:

2. *Are there any exemplary practices for the Employer Tax Rate function?

Yes ___ No ___

If yes, describe below:

ACCEPTANCE SAMPLES

ACCEPTANCE SAMPLE INSTRUCTIONS

Purpose/Intent To assure accuracy of the computation of employer's tax rate.

To assure that the State accurately maintains all data used in computation of the employer's tax rate.

Scope The scope of the review will focus on tax rates assigned to experienced rated employers who are active at the time the universe is identified.

Universe The universe to be identified for Employer Tax Rates will include all active contributory employers who are experience rated on the date the universe is identified.

The universe will exclude:

1.All reimbursing employers.
2.All non-experience rated contributory employers.
3.All employers who are not active on the date the universe is identified.

ACCEPTANCE SAMPLE INSTRUCTIONS

Timing/Frequency The universe will be selected once during the calendar year.

.....The universe will be identified after processing is completed for the tax rate notices to be issued during the review year.

If the previous year's samples of Tax Rates, Contribution Reports and Benefit Charges passed TPS review, and there have not been changes to the State's tax rating system that could have an impact on the accuracy of rate computation, the next examination of Tax Rates can take place at any time during the next four calendar years. Tax Rates are subject to TPS review some time within a four-year cycle. If one or more of the above mentioned tax functions do not pass TPS review, the Tax Rate sample must be conducted the following year.

Sampling Procedures The following describes the steps to establish the universe and select the sample accounts.

1.Determine the date the universe can be identified.

This date will vary from State to State. It will be after all the factors required to calculate the tax rates are available.

2.Identify the universe.

The universe includes all active contributory experience rated employers who will receive tax rate notices issued during the calendar year being reviewed by TPS. The tax rate notices may be for the current year or for the following year.

ACCEPTANCE SAMPLE INSTRUCTIONS

Sampling Procedures

Cont.

.....E. g., During a 2010 TPS review, in a State which issues 2010 tax rate notices in January, 2010, a sample of the 2010 notices issued in January would be selected and reviewed. For a State which issues 2011 tax rate notices in November, 2010, a sample of the 2011 notices issued in November, 2010 would be selected and reviewed.

3.Select 60 samples.

The samples will be selected from the universe immediately after the rate notices are prepared.

.....If the system is automated, the Reviewer must work closely with IT. A thorough understanding of what the sample includes and when it is to be extracted is essential.

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

ACCEPTANCE SAMPLE INSTRUCTIONS

Reviewing Samples Identify which of the following items are included in the State's rate computation formula:

- a.....total benefit charges?.....
- b.total benefit wages?.....
- c.....total taxable wages?.....
- d.taxes paid?.....
- e.....total payroll wages?.....
- f.reserve balance?.....
- g.other? (describe).....

.....Assemble the following information for the employer's account:

1.Copies of the electronic or paper contribution reports and any adjustments to these reports used in the tax rate calculation for the most recent four quarters of the calculation period (or more depending on the calculation period). Electronic source documents could include screen images or unformatted flat files of electronic reports.
2.The benefit charges used in the tax rate calculation for the most recent four (or more) quarters of the calculation period.
3.Electronic or paper information from the employer's data file used in the tax rate calculation.
4.The State's experience rate factor (e.g., tax table, schedule, ratio, etc.).
5.Any other factors used by the State to calculate the employer's tax rate.

ACCEPTANCE SAMPLE INSTRUCTIONS

Reviewing Samples

Cont.

.....Compare all documentation with the information on the employer's account record.

.....The review should be completed within 60 days after selecting the sample.

Drawing Conclusions

Using this information, answer the questions on the Acceptance Sample Questionnaire. Note that the reviewer will not evaluate the accuracy of the contribution report data, only the accurate compilation and computation of the data.

Questions #1, 2, and 3 are all evaluative.

#1.Accuracy of the computation.

#2.Accuracy of the experience rate factor.

#3.Accuracy of any solvency surtax the State may use.

A "No" answer to question #1, 2, or 3 will mean that the sampled account was not processed accurately and is not considered an acceptable case.

Of the 60 cases, if three or more are not acceptable, the reviewer must conclude that accuracy in the Employer Tax Rate function cannot be confirmed.

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

ACCEPTANCE SAMPLE INSTRUCTIONS

Documentation All 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.

ACCEPTANCE SAMPLE QUESTIONNAIRE

Accuracy of Annual Tax Rate Notice

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Were all employer specific items (e.g, wages, benefits, reserve balance, etc.,) accurately reflected on the tax rate notice?	_____	_____	
2. Were all the State specific items, (e.g., tax table, schedule, ratio, etc.) accurately reflected on the tax rate notice?	_____	_____	
3. If there is a solvency surtax charge, were the correct figures for the surcharge accurately reflected on the annual tax rate notice?	_____	_____	_____

