

EMPLOYMENT AND TRAINING ADMINISTRATION ADVISORY SYSTEM U.S. DEPARTMENT OF LABOR Washington, D.C. 20210	CLASSIFICATION UI
	CORRESPONDENCE SYMBOL OUI DU10
	DATE February 16, 2010

ADVISORY: UNEMPLOYMENT INSURANCE PROGRAM LETTER NO. 13-10

TO: STATE WORKFORCE AGENCIES

FROM: JANE OATES /s/
Assistant Secretary

SUBJECT: Tax Performance System Handbook Updates

1. Purpose. To provide updated pages for the Unemployment Insurance (UI) Tax Performance System (TPS) Handbook, ET Handbook No. 407, 4th Edition.
2. References. ET Handbook No. 407, 4th Edition, November 20, 2003; ET Handbook No. 407, 4th Edition, Change 1, December 9, 2004; ET Handbook No. 407, 4th Edition, Change 2, July 31, 2006; ET Handbook No. 407, 4th Edition, Change 3, December 11, 2007; and Unemployment Insurance Program Letter No. 25-09.
3. Background. TPS is part of the comprehensive UI performance management system “UI Performs” and ET Handbook No. 407, Edition 4, provides standard instructions for operating TPS in each state. This advisory transmits a number of modifications, clarifications, and replacement pages for the Handbook. These changes will take effect January 1, 2010.
4. Handbook Modifications Summary.
 - Chapter II, General Procedures.
 - A notation was added to advise that TPS reviewers may require data dictionaries or other specifications from the Information Technology unit in order to identify and decipher source documents necessary for confirming accuracy of tax activities.
 - References regarding case replacement have been changed to case removal.
 - Instructions have been added to explain that a state’s failure to conduct a TPS review for one or more tax functions will require corrective action and will be added towards the count of failing tax functions. Therefore, when producing a State Quality Service Plan for 2011, action must be planned for any tax functions that were not examined during the calendar year (CY) 2009 TPS review period.
 - Footnotes have been added to the Program Review Finding Chart to accommodate the above changes.

RESCISSIONS None	EXPIRATION DATE Continuing
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- Chapter III, Status Determination.
 - To ensure that states have procedures to identify and investigate employers that may be manipulating experience rating systems (i.e., State Unemployment Tax Act (SUTA) dumping detection activity), questions have been added to the Systems Review section. TPS reviewers may begin to examine state procedures at any time during the 2010 CY, however the TPS SUTA dumping detection questions are presently under review and subject to change.
 - Sampling instructions have been changed to include employers that are registered via telephone.
- Chapter IV, Cashiering.
 - Text in sampling instructions has been modified to include references to electronic and paper documentation.
- Chapter V, Report Delinquency.
 - Sampling instructions have been altered to include references to electronic records.
- Chapter VI, Collections.
 - Sampling instructions have been altered to include references to case removal and to electronic records.
- Chapter VII, Field Audit.
 - Sampling period has been changed from three to four quarters to ensure that all audits are subject to potential TPS review. Due to TPS workload concerns, an option has been provided of selecting four CY quarters, or selecting the fourth quarter of the previous CY and the first three quarters of the CY under review. Should IT programming issues arise, this change may be delayed until the CY 2011 review of audits.
- Chapter VIII, Account Maintenance.
 - In the Report Processing section, a correction was made to the numbering of a Verification Source item.
 - Systems Review text in the Report Processing section was changed to add questions about internal controls which ensure that the agency's tax system can accept and process paper and electronically-transmitted employer data accurately and effectively.
 - Systems Review text was also modified to clarify that UI reports do not have to be sent to all employers, and that paper and electronic systems for capturing reported contribution and wage information are updated at the start of each filing period.
 - The Acceptance Sampling section was changed to clarify that if employer payment is received by the TPS review date, the accuracy of payment posting must be examined. Clarification was added to confirm that the payment can be applied to any quarter as per the state's procedures. Examples of acceptable source documents for confirming accurate posting of employer reports and payments have been added.

- In the Credits/Refunds and in Debits/Billings Acceptance Sampling sections, references have been added to electronic source documents.
 - In the Experience Rating Acceptance Sample section, an example has been updated and references added to electronic source documents.
5. OMB Approval. ET Handbook No. 407 has been approved by the Office of Management and Budget (OMB) in accordance with the Paperwork Reduction Act of 1995, OMB Approval No. 1205-0332, expiration date: June 30, 2012.
 6. Action Requested. Administrators are requested to distribute this advisory and the attached replacement pages to the TPS reviewer(s) and appropriate tax staff. These updates are also available electronically at: <http://wdr.doleta.gov/directives> under Employment and Training Handbooks.
 7. Handbook Maintenance. ET Handbook 407, 4th Edition, Change 4 should have the following pages removed and replaced with the attached pages.

<u>Remove Pages</u>	<u>Insert Pages</u>
Chapter II	
Pg. 19 R 04/03 and 20 R 04/03	Pg. 19 R 10/09 and 20 R 04/03
Pg. 31 and 32 blank	Pg 31 and 32 blank
Pg. 33 R 07/06 and 34 R 04/03	Pg. 33 R 07/06 and 34 R 10/09
Pg. 35 R 07/06 and 36 R 04/03	Pg. 35 R 10/09 and 36 R 04/03
Chapter III	
Pg. 47 R 04/03 and 48 blank	Pg. 47 R 10/09 and 48 R 10/09
Pg. 63 R 11/07 and 64 R 04/03	Pg. 63 R 10/09 and 64 R 04/03
Chapter IV	
Pg. 111 R 11/07 and 112 R 11/07	Pg. 111 R 11/07 and 112 R 10/09
Chapter V	
Pg. 61 R 04/03 and 62 R 04/03	Pg. 61 R 10/09 and 62 R 04/03
Chapter VI	
Pg. 65 R 11/04 and 66 R 04/03	Pg. 65 R 11/04 and 66 R 10/09
Pg. 67 R 07/06 and 68 R 04/03	Pg. 67 R 10/09 and 68 R 04/03
Chapter VII	
Pg. 57 R 04/03 and 58 R 07/06	Pg. 57 R 10/09 and 58 R 10/09
Chapter VIII	
Pg. 23 R 04/03 and 24 blank	Pg. 23 R 10/09 and 24 blank
Pg. 33 R 04/03 and 34 blank	Pg. 33 R 10/09 and 34 blank
Pg. 35 R 04/03 and 36 R 04/03	Pg. 35 R 10/09 and 36 R 04/03
Pg. 55 R 04/03 and 56 R 04/03	Pg. 55 R 10/09 and 56 R 10/09
Pg. 57 R 04/03 and 58 blank	Pg. 57 R 10/09 and 58 blank
Pg. 59 R 04/03 and 60 blank	Pg. 59 R 10/09 and 60 blank
Pg. 117 R 04/03 and 118 R 04/03	Pg. 117 R 10/09 and 118 R 10/09

Pg. 179 R 04/03 and 180 R 04/03
Pg. 181 R 04/03 and 182 R 11/04
Pg. 297 R 04/03 and 298 R 04/03

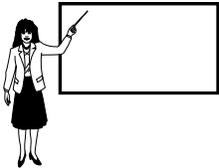
Pg. 179 R 04/03 and 180 R 10/09
Pg. 181 R 10/09 and 182 R 11/04
Pg. 297 R 10/09 and 298 R 10/09

8. Inquiries. Address all inquiries to the appropriate Regional Office.
9. Attachment. Replacement pages for Handbook 407, Edition 4, Change 4.

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.

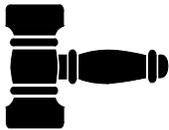
Electronic source data will not have the same appearance as the more-familiar paper document versions. For the TPS reviewer to understand and identify information when examining a string of fixed width fields in various data rows, the IT unit may have to provide a data dictionary, or assist in deciphering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

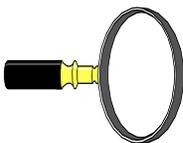
Systems to Assure
Execution of Events



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.

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.

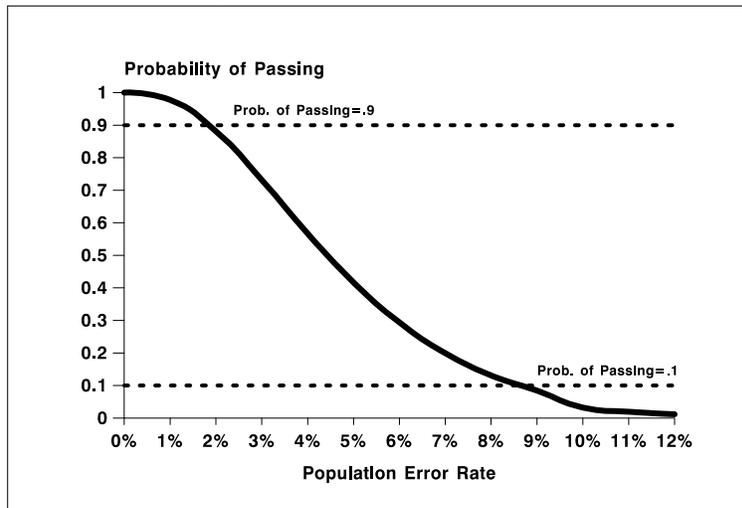
In assembling files from which samples will be selected, the state must ensure that they are randomized, or that a randomized algorithm is used before the sample is selected.

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.

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 database 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)_____

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.

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".

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%

CASHIERING

PROGRAM REVIEW

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.

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.

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.

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.

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

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 ___

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 ___

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

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
Contd.

Note that when a credit or refund is due, in excess of 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 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.