ADVISORY: **UNEMPLOYMENT INSURANCE PROGRAM LETTER NO. 29-10**

TO: STATE WORKFORCE AGENCIES

FROM: JANE OATES /s/
Assistant Secretary

SUBJECT: Tax Performance System Handbook Updates, ET HANDBOOK NO. 407, 4th EDITION, CHANGE 5

1. Purpose. To provide updated pages for the Unemployment Insurance (UI) Tax Performance System (TPS) Handbook, ET Handbook No. 407, 5th 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; Unemployment Insurance Program Letter (UIPL) No. 25-09, and UIPL No. 13-10.

3. Background. TPS is part of the comprehensive UI performance management system "UI Performs". ET Handbook No. 407, Edition 5, provides standard instructions for operating TPS in each state. This advisory transmits a number of modifications, and replacement pages for the Handbook. Included in the changes are instructions for the review of State Unemployment Tax Act (SUTA) Dumping detection activity. Subsequent to the original instructions released with UIPL No. 13-10, a small workgroup of state and Federal tax experts was convened and the workgroup proposed several modifications to the instructions. Those changes are reflected in the changed pages (see attached). For states that have already applied instructions contained in UIPL No. 13-10 as part of the 2010 Calendar Year (CY) TPS review, no further review is necessary and, if no problems or significant changes have taken place in the state's SUTA dumping detection system, the next regularly-scheduled review would take place in concert with all other aspects of the TPS Systems Reviews (i.e., once every four years).

Unless otherwise noted, the changes will take effect as of the date of this Advisory.

4. <u>Handbook Modifications Summary</u>.

- Chapter III, Status Determination. SUTA Dumping detection activity questions have been modified.
    - o   Verbiage was added to clarify that states must have an automated system in place that tracks movement of employees.
    - o   Instructions for the examination of SUTA dumping detection query documentation were changed to remove references to tracking changes to reimbursing status and tracking excess voluntary contributions, if such factors are not applicable to a state's particular tracking system.
    - o   Further details were added regarding the timing and number of cases to examine when verifying the existence of a SUTA dumping detection system.   While the TPS review itself may take place any time during the calendar year, SUTA dumping investigations that have been completed during the four quarters immediately preceding the TPS review are to be examined. For instance, if the TPS review takes place in November, the quarters examined would be the third, second, and first of that calendar year, plus quarter four of the preceding calendar year. For each quarter, a minimum of two SUTA dumping investigations should be examined.
    - o   Instructions were changed to explain that the TPS review confirms that SUTA dumping investigations have been conducted in compliance with the state's own written procedures and guidelines.

- Chapter IV, Cashiering.
    - o   Text in the sampling instructions has been modified to remove reference to sampling 100 employer remittances per day. During the sampling period of the five busiest days, remittances arrive at different levels each day and sampling should more closely follow this trend. Instructions now focus on the desired total of 500 remittances.

5. <u>OMB Approval</u>. 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. <u>Action Requested</u>. 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. <u>Handbook Maintenance</u>. 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 III	
Pg. 47 R 10/09 and 48 R 10/09	Pg. 47 R 06/10 and 48 R 06/10
Chapter IV	
Pg. 99 R 11/04 and 100 R 11/04	Pg. 99 R 06/10 and 100 R 06/10

8. <u>Inquiries</u>. Address all inquiries to the appropriate Regional Office.

9. <u>Attachment</u>. Replacement pages for Handbook 407, Edition 4, Change 5.

STATUS DETERMINATION	PROGRAM REVIEW

SYSTEMS REVIEW QUESTIONS

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

<div align="right">Yes _____ No _____</div>

VS: <u>(Question 9)</u>_____ .

10.   Does the state have an automated system in place and operating that tracks movement of employees to detect tax rate manipulation (i.e., SUTA Dumping)?

<div align="right">Yes_____ No _____</div>

If Yes, answer below.

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

<div align="right">Yes _____ No _____</div>

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

<u>(Question 10 a.)</u>_____

b.   Does the agency follow its procedures for compiling a data base of employers who indicate excessive movement of employees from one quarter to the next?

<div align="right">Yes _____ No _____</div>

VS: Examine query documentation for tracking movement of employees and changes in tax rate. If other factors are examined such as changes to reimbursing status and excess voluntary contributions, confirm that queries are in place.

<u>(Question 10 b.)</u>_____

STATUS DETERMINATION	PROGRAM REVIEW

c. Are potential rate manipulators routinely investigated every quarter?

Yes _____   No _____

VS: Locate a minimum of eight completed cases from the four most recently completed calendar quarters (two cases per quarter) and confirm they have been investigated in compliance with state procedures. Post-investigative activity such as posting and appeals do not have to be included in this verification.

 (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) _____

CASHIERING	PROGRAM REVIEW

ESTIMATION SAMPLE INSTRUCTIONS

Sampling Procedures contd.

STEP 2. Notify Regional Office of sample period.

Reviewers must inform 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. Reviewers must insure that the overall sample is representative of the population of all payment items in terms of these large employers.

For example: if 10 percent of the payment items are from these large employers, 10 percent of the total sample must come from them as well. To manage this 10 percent, 50 items (10% of the total of 500) must be selected from the large employer group. The remaining 450 sample items will be taken from the "regular" flow of contribution items.

Estimate the number of projected items in each of the two groups. Using the example and assuming 10 percent are large employers, there would be 5,000 large employers and 45,000 "regular" employers. Fifty (10%) items should be selected from the large employer group and 450 from the remainder. Calculate the Check Interval Number and Random Starting Number using the same method. The same or a different Random Number can be used for the two groups.

CASHIERING	PROGRAM REVIEW

ESTIMATION SAMPLE INSTRUCTIONS
Sampling Procedures contd.

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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 500 sample items in total for the 5 days. This requires the reviewer to estimate the amount of mail or number of mail trays to be received for the 5-day period and then to establish a sample interval, or to establish the number of sample items to be selected from each tray. 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.

In some state agencies, mail is received around 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 an appropriate number of sample items from mail incoming during that time period. For example, the reviewer is on site 7:00 AM to 4:00 PM, and the total number of mail trays for the five day period between the hours the reviewer is on site is expected to be 45. Since the sample is set at 500 items, divide 500 by 45. The result is 11.1 therefore the reviewer would randomly select 11 items from each mail tray delivered between 7:00 AM to 4:00 PM for each of the five days.

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