
MODULE 4
Tax

Quality Sample Validation

A. Introduction

One of the Tax Validation responsibilities is to review the integrity of four key Tax Performance System (TPS) acceptance samples: the three Status Determination samples and the Field Audit sample. The objective of the DV reviews is to ensure that the samples are drawn randomly from the correct population or universe. The validator (a) reviews how the sample was selected and (b) compares the universe from which the sample is drawn to a reference count—the validated reference count—from the ETA 581 report. To ensure that only random acceptance samples are investigated, the randomness of each TPS sample should be validated before the cases are given to the TPS reviewer for investigation. To keep from delaying the case investigations, do (a) as soon as the sample is drawn, as it does not depend on the 581 reference data. Comparing the universe count with the 581 reference count, (b), can be done later, when 581 data are submitted. That will be approximately February 20 for the Status Determination samples and November 20 or February 20 for the Field Audit sample (per UIPL 13-10, states have discretion in the review period for the Field Audit sample.)

States may select their TPS samples in either of two ways. The first is a conventional interval sample: the programmer (or a utility program) divides the size of the desired sample (say 30) into the size of the population (say 300) and derives the sample interval (every 10th observation). A random start point—in this instance between 1 and 10—is then applied, and the program selects every tenth case from that point. The National Office provides states with random start numbers for all TPS samples in December for the upcoming calendar year. States may also use a sampling utility program that randomizes the file and selects the first 30 observations. This approach is somewhat more difficult to validate, but could involve reviewing the sample against the source file (see Step 2 below) or reviewing the utility program specifications.

B. Procedures**Task 1: Compare Universe Counts**

From IS staff the validator should obtain copies of the universe files for Status Determinations and Field Audits. For status determinations there will be three TPS universes: (1) New, (2) Successor, and (3) Inactive/Terminated. The universe listings should cover all quarters for which the actual acceptance sample was drawn. These are as follows:

- Status Determinations: the four quarters of the calendar year
- Field Audits: State period used for acceptance sample.
 - UIPL 13-10 changed period from first three calendar-year quarters to four quarters, but the state may select either four calendar-year or four Federal fiscal-year quarters, e.g., 1/1/2010 – 12/31/2010 or 10/1/2009 – 9/30/2010.

Compare the count of each status determination universe and the field audit universe to the reference count reported on the ETA 581 (see below) for the same period. If the universe is within $\pm 2\%$ of the reference count, this indicates that the correct universe was used. Although ideally the reference counts should be taken from reports that have passed validation, the Module 4 validation must be done even if Populations 3 or 5 have not passed validation. Please note that you may need to adjust the TPS universe count of Inactivation/Termination determinations to make a proper comparison with the 581 reference count. The TPS universe includes all inactivation/termination transactions actually entered on the state's system. In some states, there may be differences from the counts required to meet ETA 581 reporting requirements.

Reference Counts by line and UIDB cell number:

- New Status Determinations: ETA 581 line 301, column 14 (c11)
 - Successor Determinations: ETA 581 line 301, column 17 (c68)
 - Inactivations/Terminations: ETA 581 line 301, column 20 (c63)
- **NOTE:** The TPS universe is to include *all* actual determinations to inactivate and/or terminate accounts during a calendar year. Federal reporting instructions may require different counts for Inactivations/Terminations on the 581; for example:
 - An account that was first inactivated and later terminated would appear twice in the TPS universe, but would only be counted once on the 581 (581 instructions allow only the inactivation/termination of an *active* account).
 - The 581 instructions also stipulate that the count of active employer accounts cannot include employers that have not reported wages for eight consecutive calendar quarters. However, some state policies do not allow accounts to be inactivated merely because an account has not met the Federal eight-quarter test, and require that additional steps occur. Since it is the state's actual determination to terminate or inactivate an account that adds it to the TPS universe, such accounts are included in the 581 count of

Inactivations/Terminations, but will not appear in the TPS universe until the actual inactivation or termination decision is issued.

- If such discrepancies arise, adjustments need to be made to the counts before comparison can be made. If the adjusted TPS universe is within $\pm 2\%$ of the 581 count, the TPS universe will be considered to contain the correct transactions.
- Field Audits: ETA 581, line 501, column 47 (c25b)

Task 2: Review Sample Selection

Determine whether an interval sample was drawn (and how it was drawn) or whether the file was randomized such that the first set of cases could be selected without establishing intervals.

If an interval sample was drawn, check to see that the correct random start number was used and that proper cases were selected (for example, if the random start was 10 and the interval was every 40th case, check to see that cases 50, 90, 130, and so forth were selected).

If the sample was drawn from a randomized file, print the file and ensure that it was not ordered by date, employer, or some other nonrandom means. The validator can compare the printout with the way the file was ordered prior to randomization to ensure that the file was randomly reordered.

Task 3: Submit Findings to the National Office

In August 2014, a screen to enter and transmit the results of Module 4 validations was added to the state Sun DV WS software. Instructions have been posted to the DV Web page and will be incorporated into the next edition of the DV Operations Guide. A facsimile of the data entry and transmission screen is below.

Once scores are validated and the worksheet is appropriately filled out, add any necessary comments to include in your submission to the National Office. Please note that the software worksheet is very similar to the template used in previous years. Click the “Save and Transmit” button. You will be asked to confirm that you *do wish to submit results*; please click OK to send the validation results to the National Office.

QUALITY SAMPLE VALIDATION
TPS1 - New Status Determinations
Validation Worksheet

Year:

| Validation Item | Validation | Result | Score |
|----------------------------------|---|-------------------------------|-------|
| Universe | (a) Validated Population 3 | Pass | |
| | (b) All records are in reporting number | Yes | |
| | (c) Number of records in universe | <input type="text"/> | |
| | (d) ETA 581 Counts | 0 | |
| | (e) Difference | | |
| | (f) %Difference | | |
| Sample Size | (a) Expected Value | 60 | |
| | (b) Actual Value | 60 | |
| | (c) Difference: | | |
| Randomness | (a) Random sampling method used | Balanced Systematic Selection | |
| | (a.1) Followed steps in Handbook 407 | Yes | |
| | (a.2) Expected Interval Size | | |
| | (a.3) Actual Interval Size | <input type="text"/> | |
| | (a.4) Difference | | |
| | (a.5) Starting point is correct | Yes | |
| | (b) Right cases were randomly selected | Yes | |
| Overall Validation Score: | | | |

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75%

QUALITY SAMPLE VALIDATION
TPS1 - New Status Determinations
Validation Worksheet

Year: 2012

| Validation Item | Validation | Result | Score |
|----------------------------------|---|--------|-------|
| Universe | (a) Validated Population 3 | Pass | PASS |
| | (b) All records are in reporting number | Yes | |
| | (c) Number of records in universe | | |
| | (d) ETA 581 Counts | | |
| | (e) Difference | | |
| | (f) %Difference | | |
| Sample Size | (a) Expected Value | | PASS |
| | (b) Actual Value | | |
| | (c) Difference: | | |
| Randomness | (a) Random sampling method used | | PASS |
| | (a.1) Followed steps in Handbook 407 | | |
| | (a.2) Expected Interval Size | | |
| | (a.3) Actual Interval Size | 0 | |
| | (a.4) Difference | 0 | |
| | (a.5) Starting point is correct | Yes | |
| | (b) Right cases were randomly selected | Yes | |
| Overall Validation Score: | | | PASS |

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C. Results and Actions

If the sampling method was not correct or was not implemented properly, the validator should ensure that the sample is redrawn and is random before it is given to the TPS reviewer. The problems should be discussed with the programmer to ensure that next year's sample is drawn randomly. If the programmer confirms that the process was incorrect, the validator should record the problems in the comments section provided in the software.

If the universe for any TPS acceptance sample differs from the 581 reference count by more than $\pm 2\%$, the review must be repeated the following year. Otherwise, the review need not be repeated for three years.