

TAX PERFORMANCE SYSTEM

OPERATIONS HANDBOOK 407
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United States Department of Labor

CHAPTER I

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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/>

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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.

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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.**

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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.

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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

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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.

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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.

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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).

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**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.

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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.

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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.

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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.