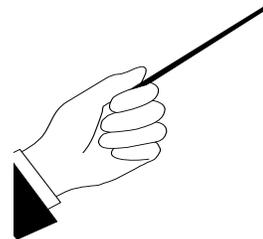


II. CONDUCT SYSTEMS REVIEWS



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 law 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.

State : _____
 Review Period : _____

Figure II-4
PROGRAM REVIEW FINDINGS

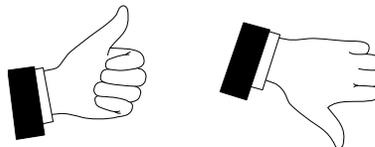
Tax Function	Systems Review Verified Controls for:						Sampling		
	Recorded Instructions	Training	Recording of Events	Authorized Individuals	Execution of Events	Review of Work	EXCEPTIONS	COMPLETE	*
STATUS DETERMINATION									
New									
Successor									
Inact/Term.									
CASHIERING									
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
 E = Exemption, tempo (Exp Rate only)
 FM = Failed due to missing case information
 W = Waived, tempo (requires Regional approval)

SAMPLING COMPLETE: P = Passed
 F/# = Failed/# of Cases Failing
 D = Discarded sample
 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.

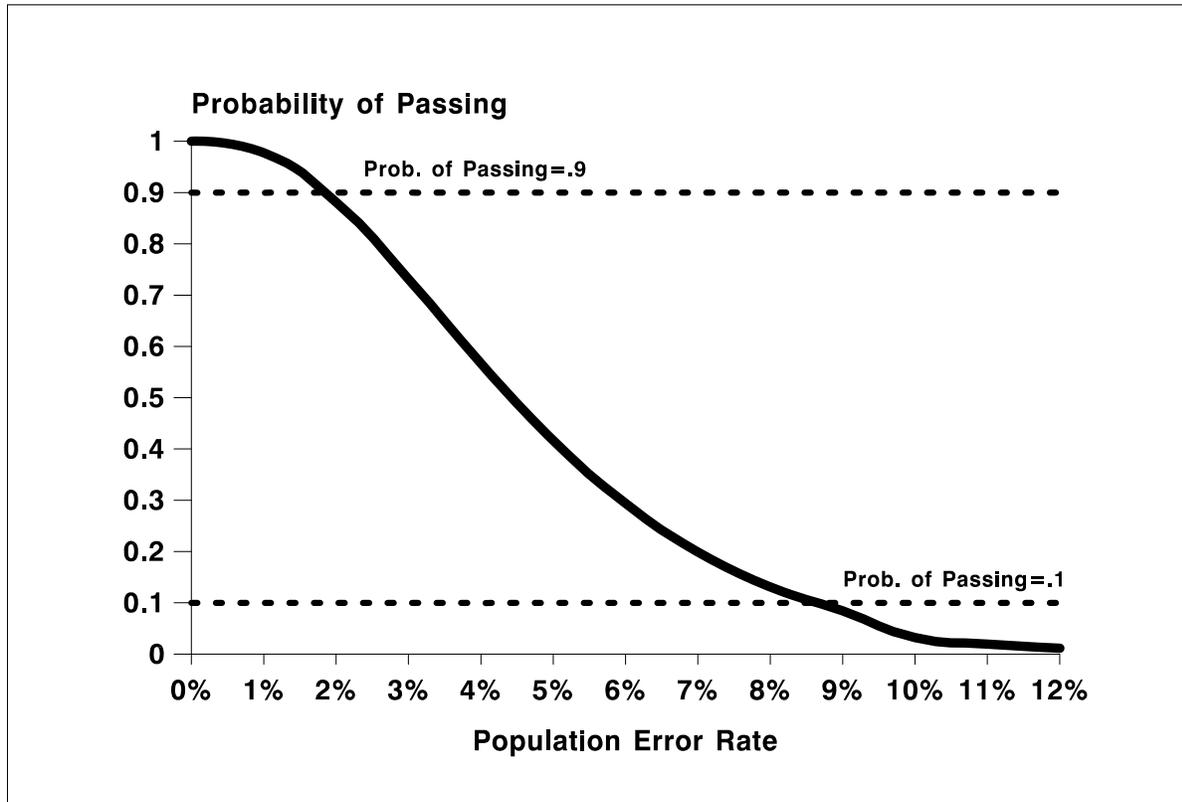
In assembling files from which samples will be selected, the state must ensure that they are randomized, or that a randomized algorithm is used before the sample is selected.

Once the System 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 at 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 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 Non Use or Case Replacement.

There are three instances where cases may not be used, or case replacement 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 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 Region 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, the tax function cannot be evaluated.

The DP 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 made in the Annual Report of this problem as well as steps to rectify it.**

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

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 REPLACEMENT IS ALLOWED FOR ONE AND ONLY ONE LOST CASE.**

Before replacement the reviewer must: Assure (as far as 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 such instances.

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. Mark the sample as a "Discard" and notify the National Office. 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 have 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 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.

ACCEPTANCE SAMPLE INSTRUCTIONS

Reviewing Samples

Assemble the following information from the employer's account:

1. All 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.
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.

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

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

The scope of the review will focus on audits completed in the first, second and third quarters of a calendar year.

Universe

There is one universe to be identified for the Field Audit Acceptance Sample:

1. All audits completed on Contributory Employers in the first, second, and third quarters of the calendar year.
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 third quarter.

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 in the first three quarters of the calendar year. 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 third quarter ends.

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 ADP 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.

FIELD AUDIT

PROGRAM REVIEW

ACCEPTANCE SAMPLE INSTRUCTIONS

*Reviewing Sample
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.

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.

