

CHAPTER II

GENERAL PROCEDURES

COMPONENTS

INTRODUCTION

PLANNING FOR REVIEW

CONDUCTING SYSTEMS REVIEWS

SAMPLING

CONCLUDING REVIEW

INTRODUCTION

The TPS review is designed as a cost effective means to evaluate the State's UI tax operations. This chapter describes the general procedures to be followed in conducting the TPS review, and each subsequent chapter contains the specific data collection instruments to be used for the review of each tax function. The following major tax functions will be reviewed:

Tax Functions Examined

Status Determination

Cashiering

Report Delinquency

Collections

Field Audit

Account Maintenance

Two different methodologies are provided for evaluating the State tax operation. They can be used in concert with each other in order to comprehensively assess the strengths and weaknesses of each tax function. The methodologies are:

Methodologies

1 Computed Measures

2 Program Reviews

Systems Reviews

Acceptance or Estimation Sample

Figure II-1 TPS ASSESSMENT METHODS OVERVIEW

Computed Measures

Specific indicators have been developed for the Status Determination, Report Delinquency, Collections, and Field Audit functions. Data elements for these indicators will be gathered from the current system used by States to electronically report quarterly data to the U.S. Department of Labor.

These measures will be automatically transformed into indicators of timeliness and completeness by the TPS ADP system and provided to the TPS reviewer to aid in the final evaluation of State tax operations.

Computed Measures

Status Determination

- . % New determinations made within 90 days
- . % New Determinations made within 180 days
- . % Successor Determinations made within 90 days
- . % Successor Determinations made within 180 days

Report Delinquency (contrib. & reimb.)

- . % Timely Reports
- . % Reports Secured within 90 days
- . % Reports resolved within 180 days

Collections (contrib. & reimb.)

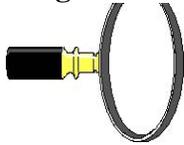
- . % Timely Payments
- . Turnover of accounts receivable
- . % Receivables declared uncollectible
- . % Accounts Receivable

Field Audit

- . % Total wage change
- . % Contributory employers audited
- . % Total wages audited
(annualized)

The timeliness and completeness findings from these indicators should be presented along with the findings about accuracy from program reviews when evaluating the quality of a particular tax function in the Annual Report.

Program Reviews



The Program Review methodology is designed to alert the TPS reviewer to the tax functions that are producing inaccurate, untimely, or incomplete outputs. This is done as a two-fold process: Systems Review and Acceptance Sampling.

Systems Review

To ensure accurate and timely tax operations, each State has built in various internal controls and quality assurance systems such as edits and checks, reviews of completed work and audit trails. However, such systems are not absolute. The systems themselves could be flawed, or stated policy may not always be followed. Therefore, the TPS review begins with an extensive examination of the State's controls, verifying their existence and use, documenting areas of potential "risk" where controls are weak or nonexistent.

Acceptance Handling

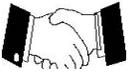
To confirm that State controls are producing the desired (such as accurately determining the status of potential employers, properly resolving delinquent reports, and following State procedures when collecting accounts receivable), small "acceptance" or "discovery" samples are examined for each tax function. Due to the small number of samples, this test is intended simply to signal potential problem areas in those tax functions where 3 or more cases are found to fail. It indicates - with a 90% confidence level - that the particular tax function has an error rate of 8.8% or more. For more details or to determine a specific level of error, the reviewer may draw a larger sample (see Appendix A).

Review Steps

To conduct the TPS Review, the reviewer will need to complete four major steps: Plan for the Reviews, Conduct Systems Reviews, Acceptance Sampling, and Conclude Reviews (see Figure II-2). The following sections of this chapter provide directions for the review steps. Chapters three through eight provide TPS data collection instruments for the review of each major tax function.

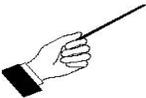
Figure II-2

OVERVIEW OF REVIEW STEPS



I. PLANNING FOR REVIEWS

- a. Review All TPS Materials
- b. Ensure that Records are Retained
- c. Schedule and Conduct Introductory Meetings
- d. Lay Groundwork for Reviews and Computed Measures
- e. Develop Workplans for Reviews



II. CONDUCTING SYSTEMS REVIEWS

- a. Begin Reviews
- b. Gather Information
- c. Verify the Source of Information
- d. Complete the Systems Review Forms
- e. Complete the Program Review Chart (preliminary)



III. ACCEPTANCE SAMPLING

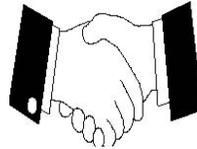
- a. Select Samples
- b. Replace Missing Cases (if needed)
- c. Review Samples
- d. Post Coding Sheets
- e. Prepare Preliminary Findings
- f. Select and Examine Expanded Samples (if needed)
- g. Sampling by Exception



IV. CONCLUDING REVIEWS,

- a. Assess Computed Measures' Findings
- b. Complete Program Review Chart
- c. Prepare Draft Report
- d. Conduct Exit Interview
- a. e. Prepare Annual Report

I. PLANNING FOR REVIEWS



a. Review All TPS Materials

To complete the Program Review, the reviewer must be thoroughly familiar with the TPS review procedures. Knowing the required review steps of Computed Measures, Systems Review, and Acceptance Sampling will allow the reviewer to conduct all necessary activities without undue delays. Understanding the review questions is also essential to building reviewer credibility. If the reviewer is not knowledgeable, respondents may think their time is being wasted and be less cooperative.

The reviewer should thoroughly examine the materials in this handbook and other TPS background materials before contacting the State UI tax staff regarding the review. *If there are any questions, please call the Regional TPS staff for clarification.*

b. Ensure that Records are Retained

Upon familiarization with the TPS design, the reviewer must ensure that the State is retaining the necessary records from the specific tax functions to such a degree as to allow all Acceptance Sample questions to be answered (e.g., paper copies, imaging, microfiche, back up discs, etc).

For example, in the Status Determination Chapter an Acceptance Sample question asks "Does evidence exist at the time of the review that the account had been correctly set up in accordance with State law and written policy?". In this instance to properly answer the question the State must have retained sufficient documentation for the reviewer to make that determination. Another Acceptance Sample question asks "Has the employer provided all the information that is material to the Inactivated/Terminated Determination?". For the reviewer to properly answer this question, documentation authorizing the termination must exist. Such documentation may be found in the form of a letter for the termination from the employer, or a report from the State field staff stating the business is closed, or on a computer listing of accounts terminated after the required quarters have lapsed with no reported wages.

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It is the responsibility of the TPS reviewer to become knowledgeable about the information requested in the Acceptance Samples and ensure if the State is not currently retaining the information that arrangements are made to do so. In each chapter's Acceptance Sample instructions, information is provided that will also assist the reviewer in clarifying what work product must be retained by the State.

At a minimum, documentation must be recorded and maintained until the TPS Annual Report has been reviewed and approved by the Regional Office. The records can be retained in their original hard copy form, on microfiche or any other means that provides sufficient detail; or the State must maintain an audit trail which permits the reviewer to follow the flow of the work in complete enough detail so as to allow the Acceptance Sample to be answered in full.

c. Schedule and Conduct Introductory Meetings

The next step of the TPS review is to meet with the UI Director and the Tax Chief to ensure management support for scheduling and conducting the review. In addition, the State administrator who will deal with the reviewer in terms of TPS findings and recommendations must be identified.

A meeting should be scheduled with all appropriate personnel including unit supervisors and ADP staff to discuss the review, to request necessary materials, procedures, charts, etc. and to ensure that data processing staff are informed of their involvement in the creation of sampling universes and the processing of computed measures.

At both administrative and tax staff meetings the TPS reviewer must explain the purpose and content of the TPS review. It should be explained that the primary purpose of the review is to produce information for the State to use to improve the quality of their revenue operation; and that the secondary purpose is to make a formal judgment about whether reasonable assurance of quality exists in each of the functional areas.

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Other items to explain include:

The tax function subjected to review

The role of Computed Measures

The role of System Reviews, Acceptance Samples and Expanded Samples

The steps of the review

The highly detailed nature of the review including the need to identify information sources to verify findings

Other activities to be covered at the initial meeting with unit supervisors are:

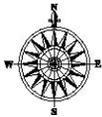
Providing copies of all review documents to the units involved in the review. This includes the individual tax functions (i.e., the Status unit, Cashiering, Delinquency unit, Field operations, and Accounting), as well as the Data Processing section.

Drafting a Flow Chart of the Tax Operation to serve as a road map to the TPS Program Review. It should show units responsible for each function and subfunction which will be reviewed and should identify the individuals to contact about each. This will also guide the reviewer in scheduling interviews, and clarify the operational flow of the tax functions.

Arranging to obtain materials describing the State's revenue procedures and rules. These materials should include UI Tax laws and regulations, manuals, and other written descriptions of organization and procedures.

d. Lay the Groundwork for Reviews and Computed Measures

The first objective of the reviewer is to learn enough about the applicable laws, rules and regulations of the State tax operation to effectively plan and administer the TPS review. The reviewer will complete the following tasks as part of the preparation:



Examine the data elements for Computed Measures. The reviewer must ensure that they are being gathered and that Federal definitions are being interpreted and reported as intended.

Complete or update the Organizational Chart. The TPS review will examine six tax functions in every State, but each State's tax agency is organized differently. Some agencies may call these functions by different names or have parts of a single function managed by many different units. By understanding who does what, the reviewers will become familiar with the specific structure of the State's Revenue organization prior to conducting the review.

Listing the staff to contact for information on each TPS subfunction will provide the reviewer with an understanding of the structure of revenue operations.

Assemble and review the materials including State's organization chart, laws, regulations, manuals and procedures. Many questions in the Program Review materials ask the reviewer to determine whether State procedures ensure that staff are correctly applying State UI tax laws and regulations. Questions on Recorded Information & Instructions ask whether such documentation reflect accurately and completely the current laws and regulations.

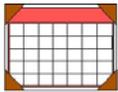
To prepare to answer these questions the reviewer should examine State UI tax laws, regulations and other written policies. These materials may be lengthy. If the reviewer is very familiar with the TPS review instruments it should be possible to identify those sections of State law and regulations which are most relevant. The reviewer might develop a reference sheet prior to conducting the review which could note key features of the State law, citations, and dates of enactment.

If an audit of the State has been recently performed by groups or firms outside the State tax area, the reviewer should examine the findings and the State's response to those findings. Information from the findings can aid the reviewer in developing a comprehensive understanding of the State's tax operation. Since audits are financial in nature, their focus is likely to be different from that of the TPS review. Therefore, the existence of a recent audit will not replace an TPS review.

During the preparation for this review, the reviewer should determine if there might be any questions in the Acceptance Sample Questionnaire which have no material effect on the current or future payment of UI tax.

If such questions are identified in the Acceptance Samples, the State will need to coordinate with the Regional representatives to obtain necessary approval to enter a code of "Not Applicable" one time for the entire column deemed not material. Regions will produce a brief memorandum attesting that due to State regulations, a particular question is Not Applicable. This memo will be attached as part of the State's Annual Report.

e. Develop Workplan for Reviews and Schedule Interview



A central part of the preparation and workplan development will be to schedule all interviews, Acceptance Sample reviews, and meetings with agency staff. The reviewer should develop a workplan which lists dates of review activities. The workplan should include starting dates as well as target completion dates for review of Computed Measures findings, Systems Reviews, Acceptance Sampling and completion of the Annual Report.

During the implementation of TPS, an integral part of the preparation and workplan is the examination of the Acceptance Sample universe time frames and required identification dates to determine whether each universe is to be identified by the "build as you go", or the "identify after the fact" method (see Appendix A).

The workplan should ensure that all required review steps are anticipated, that data processing is in simultaneous progression, that the State tax staff know when to expect review activities, and that all parties know whether the review is on schedule.

The contact person for each tax function should be informed of progress and findings so that no misunderstandings arise, and be made aware of any problem areas in the units as soon as possible.

In States where tax functions are spread out over many different locations, the reviewer should factor this into planning. Ideally, all locations should be examined each year, but if this is not possible, the reviewer should plan to visit a number of different locations each year, so that by the end of the four year Systems Review cycle, each location has been visited and evaluated.

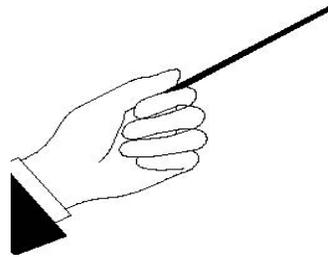
The reviewer will submit a workplan for each upcoming year to the RO. The RO will require progress reports to ensure that projected work is being completed on schedule, to the extent possible, and that the TPS Annual Report will be completed on time.

(Figure II-3 displays anticipated scheduling of Acceptance Sampling.)

Figure II-3

Figure II-3, done on "Pagemaker," will be inserted on this page. It was originally recorded as C:\document\PMDOCS\TPS\exhib2-5.PM5, but this filename has been changed and Bob Timms has the correct filename.

II. CONDUCT SYSTEMS REVIEWS



a. Begin Systems Review

The Systems Review is an organized assessment of State's internal controls or quality assurance systems. The presence of these controls should ensure that 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 (Policy and Procedures Manual for Guidance of Federal Agencies, Title 2 - Accounting, Appendix II, Standards for Internal Controls in the Federal Government.). 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.

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 laws 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.



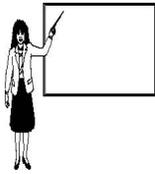
Recorded information may include manuals, handbooks, desk aids, computer help screens, training guides, organized collections of procedures or policies, or other readily accessible instructions which can help staff do their work correctly. Instructions will normally include both general information such 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.

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SYSTEMS REVIEWS

Training Systems

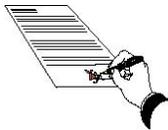
Managers and employees responsible for key decisions should possess and maintain a level of expertise which enables them to accomplish their assigned duties. Training systems should be sufficient to ensure that personnel understand and perform their duties properly. (New employees should have some form 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 event 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.

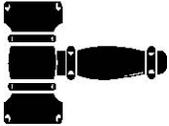


Whether systems are manual or automated, audit trails are necessary so that original information is recorded and retained. Hard copies, microfiches or imaging of original information can provide audit trails. For employers filing or reporting electronically, on disk or tape, a copy of the reported information 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 DP unit should be contacted to locate back up files such as tapes, disc, etc. of the computer program runs. The DP 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.

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SYSTEMS REVIEWS

Execution by
Authorized Individuals



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.

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.

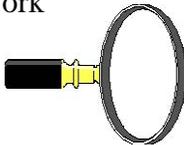
Reviewers will determine whether State requirements provide for the execution of significant events by only authorized individuals.

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.

Review of Completed
Work



Reviewers should determine if such program management systems have been built into the State revenue operation.

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.

Review of completed work can take many forms. It may be traditional supervision where a manager reviews and approves the work outputs of immediate subordinates. For some functions, such as cashiering, supervisory review may take the form of checking to assure that reconciliations are being performed. Other agencies may use peer review or quality assurance techniques where representative samples of the work of a tax unit are periodically reviewed, and based on the review, new procedures, training or assignments are implemented to improve quality.

Not all tax functions are similarly affected by each internal control. Completing the TPS Systems Review questions for some internal controls like Recorded Information and Instructions, and Training may be repetitive in States where the same people (e.g., Technical Support Services or Training Section) provide different training for various units; or where there is only one manual, handbook, etc. for the entire tax operation.

Most of the questions in the Systems Review guide are **evaluative**. If the reviewer can not confirm that a particular control exists and that no other compensating control exists, a weakness is presumed to exist in the system and the State is judged to be at "risk". Some Systems Review questions are **non-evaluative** and for informational purposes only. Lack of these controls does not put State at risk. These informational questions, identified by an asterisk (*), are planned to be used to provide technical assistance for States in their various tax functions.

Note that if a State elects to operate with a weakness/risk in its system and no major changes have been put in place, the reviewer does not have to perform another Systems Review on that tax function the following year. However, that tax function will be deemed at "Risk" until the problem is resolved.

While it is important to identify areas of strengths and weaknesses for program improvement - **the final evaluation is based on the Acceptance Sample findings, not the Systems Review**. The design of Program Review focuses on the downstream effect - if there is no material effect on current or future payment of UI tax (as evidenced by the sample results), then the State has reasonable assurance of a quality tax operation.

b. Gather Information



The Systems Review is directed and organized by a set of fact finding questions and narratives. They are not intended to be "interview instruments" where the contents of a dialogue between the reviewer and State staff are simply recorded. Rather, the questions and narratives should serve as a vehicle for reviewers to record and **verify** information from many sources about the systems and controls States have installed to assure accuracy and timeliness in their tax operations. The reviewer will use and probe as many sources as necessary to come to conclusions as to the proper answer to each question.

A typical Systems Review will require the reviewer to gather information from three sources:

Examinations of manuals, handbooks, laws
and other documentation

Interviews with State staff

Direct observation

The reviewer will need to use all of these sources to complete the Systems Review, and in most cases will need to go back and forth between the sources to fill in gaps. For example, a reviewer may have an idea of the responsibilities of an individual staff member based upon a review of the desk procedures for the person's job. Later, when interviewing the person the reviewer may hear a different description of the responsibilities. By returning to the documentation the reviewer can clarify the answers to the questions and identify additional questions which need to be asked to avoid any confusion.

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Examination of Documentation. The least intrusive means of data collection is review of documentation. By examining materials describing agency practices the reviewer can obtain preliminary answers to Systems Review questions without bothering agency staff or interrupting their work. More importantly, when it does come time to interview staff, the reviewer will get more accurate answers if he or she is credible.

The reviewer must be knowledgeable about both the TPS process and agency procedures to assure the respondents that their time is not being wasted. Review of documentation will help the reviewer become familiar with agency procedures and terminology.

Interviewing Staff. A major source of information for the Systems Review will be discussions with State staff who are familiar with the tax function being reviewed.



While the questions in this handbook are a start, they should not be the end. The reviewers will need to ask additional questions to be sure they fully understand the responses. They also need, in most instances, to speak with several staff persons to get full answers to all questions. Additionally, they may need to come back to some questions later if they cannot verify the response by examining documentation or by directly observing the system at work.



Direct Observation. The review of documentation and interviews with staff will leave the reviewer with an understanding of the way systems "are supposed to" operate, or the way administrators think they are operating.

It is the reviewers' responsibility to assure themselves, through direct observation, that the systems actually operate that way. Any number of methods exist to observe a process, including: (1) reviewing reports, calculator tapes and other evidence of a procedure, (2) observing a process on-site, or (3) checking for the presence of a procedure while reviewing the Acceptance Sample.

All Systems Review guides begin with a form to list people and documents that have been reviewed (Interview Sheet). This list is to be kept up to date as the review proceeds. The list will help other reviewers in subsequent years in conducting their review by serving as a recorded register of information sources used in support of the review effort. (It should be part of the TPS workpapers, but does not have to be submitted with the Annual Report.)

c. Verify the Information Obtained



The reviewer is expected to document the evidence obtained to support each "Yes" answer in the Systems Review checklist. Informational questions (marked with an asterisk) do not require any verification since they are not evaluative. This evidence will be recorded for each question or clusters of related Systems Review questions as the "Verification Source", often noted on the forms simply as VS. **The Verification Source should be the most direct evidence to support the answer recorded. Only when no other source is available will the verification source be solely the response from an interview.**

In completing the Systems Review, verification of some answers may only be possible after examining a sample of outputs or after completion of the Acceptance Sample (e.g., to answer whether certain actions taken by field audit staff are being documented in their audits). The Systems Review will be in final form only after completion of Acceptance Sampling. Following are several examples of appropriate review activities and verification sources for specific areas of inquiry:

Question: Does the State have recorded information and instructions to assist employees performing Status functions in each category in accordance with State laws and written policies?

Review Activities: Read the manual, handbook, or procedures that were assigned to employee; interview staff to confirm use, etc.

Verification Source: Record the precise name and section or page number of documents containing information and instructions for making status determinations.

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