APPENDIX D

EXAMPLE OF ANNUAL REPORT

ANNUAL REPORT

EXAMPLE OF REPORT

The example shown on the following pages is not a mandatory format. It can be modified to suit individual State's needs, For example, some States, based on their organizational structure, may find it necessary to add additional sections or combine sections to fit their management arrangement.

Reviewers should have discussions with management prior to report preparation to determine the expected report content and format.

Each Regional Office may also need and request certain information. The National Office will provide instructions in a separate directive concerning data requirements for the Department of Labor. Data will be used in the Tax Performance System portion of an overall system of UI performance measurement known as UI Performs.

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THIS EXAMPLE SUGGESTS STYLE AND LANGUAGE. THE EXAMPLES OF COMPUTED MEASURES DO NOT REPRESENT DESIRED LEVELS OF ACHIEVEMENT.

Show purpose and date review was completed

Describe organization of report

The section detailing each tax function should be a document that can "stand alone"

TPS ANNUAL REPORT FOR 1995

STATE XXX

DATE

This Report consists of the findings and recommendations resulting from the TPS review of the UI Revenue (Tax) Operations completed April 30, 1996. The report is divided into two sections.

Section I is an Executive Summary providing general background information regarding the review and a summary of the major findings, conclusions, and recommendations.   Also included with this section are the Computed Measures indicators for the past three years, and a Program Review Findings Chart.

Section II is a Detailed Report of each of the tax functions reviewed. This Section also includes a letter from the Regional Office Representative authorizing the use of blanket N/As and Compensating Controls.

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Explain which tax functions
were reviewed and the
methodologies used

TAX PERFORMANCE SYSTEM

ANNUAL REPORT FOR 1995

SECTION I

E X E C U T I V E   S U M M A R Y

The TPS review assessed the quality of the UI Tax Operation in each of the
major tax functions using the following methodologies:

- **Computed Measures**

  Specific indicators for Status Determinations, Report Delinquency,
  Collections and Field Audit were compiled to assess timeliness
  and completeness.

- **Program Reviews**

  Systems Reviews: The internal controls and quality assurance
  systems of each tax function were examined.

  Acceptance Samples: Small samples were examined from each
  tax function to confirm that controls and quality assurance systems
  were working effectively to produce accurate outputs.

- **Methods Surveys**

  Information was gathered on the State's methods and procedures
  to: facilitate and promote employer identification and registration;
  resolve delinquencies; promote voluntary payment compliance;
  and manage and control Accounts Receivable.

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Provide Synopsis of What Was
Found in Each Area

FINDINGS AND CONCLUSIONS

Status

Indicate whether Acceptance
Sample passed or failed the
review

Identify strengths and
weaknesses

Reasonable assurance of quality was confirmed for Status
Determinations and Status Posting functions. The Acceptance
Samples for New, Successor, and Inactivation Determinations all
passed the review which validated the effectiveness of the internal
controls. The Systems Review, however, did identify a potential
risk in the Status successor area.

The Computed Measures indicated that both New and Successor
Status Determinations were completed in a timely manner. The
percentages for New Status determinations were 81.2% made within
90 days and 99.3% in 180 days. The percentages for Successor
Status determinations were 89.3% made within 90 days and 99.7%
in 180 days.

Cashiering

If no risk was found, say so

Reasonable assurance of quality was confirmed for the Cashiering
function. The Systems Review verified the existence of the
necessary internal controls, and no risks were identified. The
Acceptance Sample cases all passed, and the three verification tests
also passed, which validated the effectiveness of the internal
controls.

Report Delinquency

Reasonable assurance of quality was confirmed in this function.
The Program Review findings indicated that all internal controls
were present and operating effectively. The absence of risks in the
Systems Review was consistent with no errors found in the
Acceptance Sample cases.

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Examine and discuss trend indicated by Computed Measures

Remember to include Computed Measures findings when assessing quality

Discuss effect of any trend that may be revealed by Computed Measures

Report Delinquency (cont.)

The Computed Measures indicated that the State is doing very well in securing and resolving report delinquencies. The State had 91.7% of the contribution reports filed timely; 94.1% of reports were secured by the end of the following quarter; and 99.1% of reports were secured or resolved within 180 days.

Collections

In the Collections function, the Systems Review findings indicated that all internal controls were present and the Acceptance Sample cases verified that the collection procedures were being adhered to; however, the findings from the Computed Measures indicated that the State was not effective in managing accounts receivable.

The Computed Measures imply that the State is experiencing problems in collecting past due taxes. The percent of contributory employers making timely payments (Indicator 1) was 91.1%, the turnover of receivables (Indicator 2) was 1.3%, the percent declared uncollectible (Indicator 3) was 0.6%, and the percent of unpaid contributions/reimbursements due (Indicator 4) was 7.4%. These percentages indicate that the SESA may not be collecting tax dollars past due in a timely manner, and is not currently reducing the overall level of accounts receivable which has been static for the past three years.

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Field Audit

If problems were found,
say so

   however...

point out any actions being
taken to remedy problem areas

Reasonable assurance of quality was not confirmed for the Field
Audit function. The Systems Review identified a risk in the
recording of transactions and events. This lack of documentation
has been addressed since the TPS Review, and refresher training for
all field auditors is planned for the near future. Due to the actions
being taken to correct this weakness, a marked improvement is
anticipated by the time the next TPS review takes place.

The results of the three computed measures indicated overall, that
the State has managed the field audit program well for the review
year. The percent of change in total wages audited was 14.3%, the
audit penetration rate of 2.8% exceeded the DOL penetration level
requirements, and the percent of total wages audited was 4.0%

Identify areas of strength

Account Maintenance

Reasonable assurance of quality in the Account Maintenance
function was confirmed for all areas except in Employer
Debits/Billings. The Systems Reviews conducted for Contribution
Report Processing, Employer Credits/Refunds, Benefit Charging,
and Employer Tax Rates indicated that all necessary controls were
present; and the Acceptance Samples for these areas validated the
effectiveness of those controls.

If an inconsistency exists
between Systems Review and
Sampling, explain it

The Systems Review conducted for Employer Debits/Billings also
revealed no risks, and indicated that all internal controls were
present; however, the Acceptance Samples cases identified errors in
billing employers properly. The contributing factors were
subsequently identified, and actions have been taken to resolve this
problem.

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Identify any systemic problem areas and note actions under consideration

Also highlight any findings that appear exemplary

In developing suggestions for improvements, examine the Methods Survey data of other States with high scoring Computed Measures For details on other States' procedures & tools, contact your Regional partner

Global/Systemic or Other Miscellaneous Findings

In conducting the Systems Reviews for the various tax functions, a lack of written procedures was found to exist in several functions. The Tax Unit staff has been advised of these findings, and they are taking steps to work with the Technical Support unit to write procedures for these functions as time and money permit.

Exemplary Findings

An exemplary practice was identified in the Account Maintenance function for Benefit Charging. The State's automated system reconciles each benefit check by individual social security number to each employer's account attached to the claim. This reconciliation is performed daily. Such a control assures the State that all benefits paid are accurately allocated to the proper employer's account or to the general pool account.

RECOMMENDATIONS

Collections

It is recommended that the Collections Unit implement additional procedures and/or tools to more effectively manage accounts receivable. E. g., immediate lien filing for chronic employers and automated lien filing for accounts over 60 days old.

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RECOMMENDATIONS (cont.)

Field Audit

Many times, the State's own tax staff will have the best solutions

In the Field Audit unit, refresher training should be provided to assure that all field auditors are aware of the documentation requirements. A review system should be implemented to assure that the audits are meeting the documentation requirements. Audits completed by auditors who are more prone to err may require more extensive review.

Account Maintenance (Employer Debits/Billings)

At times, the ADP staff may have to be involved

Don't overlook simple solutions

The computer program for employer billings needs to be modified to reject contribution reports not properly prepared for the scanner. Clarification to the written procedures needs to be provided to notify all staff that black #2 pencils should be used in preparing reports for the scanner. The supervisor of this unit could consider implementing a review to assure that staff is properly completing the reports to be scanned.

Global/Systemic and Miscellaneous

The Tax staff should take steps to begin the process of writing procedures for each unit where a risk was identified in the area of recording information and instructions.

Other

If problems are identified that fall outside the scope of TPS's review - still bring it to the State administrator's attention

Outside the scope of the TPS Review in Cashiering, a non-sufficient-funds check was discovered on a claims overpayment that had been charged back to the Benefit Payment Account, but had not been added back to the amount of the claimant's overpayment. The Benefit Payment Control Unit was notified and the procedures were amended to prevent future problems of this type.

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PROGRAM REVIEW FINDINGS

SESA NAME:_____

REVIEW PERIOD:_____

FUNCTION

		Recorded Instructions	Training	Recording of Events	Execution by Authorized Individuals	Execution of Events	Review of Completed Work	Accuracy of Output and Effectiveness of Controls?
		Systems Review Verified Controls for:						Acceptance Sample Confirmed:
STATUS DETERMINATION								
New	Determination	C	C	C		C	C	Y
	Posting			C		C	C	Y
Successor	Determination	R	R	R		C	R	Y
	Posting			C		C	C	Y
Inact/Term.	Determination	C	C	C		C	C	Y
	Posting			C		C	C	Y
CASHIERING		C	C	C	C	C	C	Y
REPORT DELINQUENCY		C	C	C		C	C	Y
COLLECTIONS		C	C	C	C	C	C	Y
FIELD AUDIT								
Random								
Other		C	R	R		C	C	N
ACCOUNT MAINTENANCE								
Contribution Report Processing		C	C	C		C	C	Y
Employer Debits/Billings		C	C	C		C	C	Cont. N
								Reim. Y
Employer Credits/Refunds		C	C	C		C	C	Y
Employer Charging		C	C	C		C	C	Y
Employer Tax Rates		C	C	C		C	C	Y

LEGEND: Systems Review   C = All controls verified as present

R = 1 or more controls missing

O = Other control was identified which compensated for missing control (requires Regional approval)

Acceptance Samples   Y = Two or fewer sample cases failed, confirming accuracy of outputs and effectiveness of controls

N = Three or more sample cases were not accurate and did not validate effectiveness of controls

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Attach graphics of Computed
Measures

Computed Measures calculations and
layouts
  (under development)

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 NOTE: THIS SECTION OF APPENDIX D PROVIDES EXAMPLES OF FINDINGS FOR SOME BUT NOT ALL TAX FUNCTIONS.

TAX PERFORMANCE SYSTEM

ANNUAL REPORT FOR 1995

SECTION II

DETAILED REPORT FOR EACH FUNCTION

STATUS

Findings from Computed Measures indicated that both New and Successor Status Determinations were completed in a timely manner and have continued to improve. Reasonable Assurance of accuracy was found in all categories of Status Determination and Posting – Newly established accounts, Successors and Inactivations/Terminations.

Computed Measures Findings:

Indicator 1. Percent of Status Determinations of newly
              established accounts made within 90 days
              from the last day of the quarter in which the
              account first became liable:

              <u>1993</u>   <u>1994</u>   <u>1995</u>

              80.3%   80.6%   81.2%

For each tax function, the report should be complete - it should be able to stand alone

Synopsize findings up front, with details to follow

Briefly describe what was measured

Cite several years' worth of data (when available)

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Computed Measures Findings (cont.)

Indicator 2. Percent of Status Determination of newly estab-
lished accounts made within 180 days from
the last day of the quarter in which the account
first became liable:

1993	1994	1995
98.2%	98.7%	99.3%

Indicator 3. Percent of Status Determinations of Successor
accounts made within 90 days from the last
day of the quarter in which the account first
became liable as a Successor:

1993	1994	1995
85.6	87.3%	89.3%

Indicator 4. Percent of Status Determinations of Successor
accounts made within 180 days from the last
day of the quarter in which the account first
became liable as a Successor:

1993	1994	1995
89.6	99.7%	99.7%

If the unit is strong in an area,
say so

Attempt to identify and
evaluate any trends

The percent of Status Determinations completed for both New and
Successor employers indicated that the State is doing very well.
During the past two years, emphasis has been placed on the timely
completion of Successor Determinations and it is evident that there
has been a positive effect on performance.

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Program Review Findings:

Reasonable Assurance of accuracy was confirmed in all three
Acceptance Samples. The Status New Determination and Status
Inactivation/Termination Acceptance Samples passed the review
with no failing cases.

Although all categories of Status Acceptance Samples passed, some
weaknesses in the Successor function were identified in the Systems
Review. These weaknesses indicate a need for written procedures
and instructions to be updated, a need for improvement in documen-
tation of investigative procedures and a more systematic review of
completed Successor Determination work.

The Successor Determination Acceptance Sample passed 58 of the 60
cases. (There is "reasonable assurance of accuracy" if two or fewer
samples fail sampling review.) The two failing cases contained no
evidence or documentation that fact-finding investigations had been
conducted. The SESA procedures require a thorough investigation
before making a Successor Determination, and such fact-finding is
required to be documented. In connection with this lack of documen-
tation of fact-finding, Systems Review risks were identified in the
following categories:

- Recorded instructions - Successor instructions in the operating
  manual did not spell out current investigative fact-finding
  requirements.

- Training - No back-up training for employees in the Successor area.

- Recording of Transaction and Events - Documentation is not being
  maintained to support that fact-finding procedures are being
  followed.

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Program Review Findings: (cont.)

- Review of Completed Work - No systematic review of Successor Determinations is currently being conducted.

Explain any inconsistency between Systems Review and Acceptance Sample findings

The overall passing of the Successor Acceptance Sample when risks were identified during the Systems Review seems to be directly related to a knowledgeable, long-time employee who makes Successor Determinations; however, complete reliance on the presence of long-time employees to overcome the lack of controls poses a risk because an employee could retire, become ill or otherwise become unavailable.

When recommending improvements, explain the material effect the risk has on the tax system

Improvements are recommended in all the areas where risks were identified because inaccurate Successor Determinations can result in lost revenue to the SESA's trust fund.

Recommendations:

- Implement a plan to periodically update the operations manual to ensure that recorded instructions are current (particularly in the Successor area).

It is suggested that recommendation are developed with input from State tax staff and Regional staff

- Describe the proper fact-finding procedures required for making successor determinations, and include the level of documentation required to substantiate that fact-finding was conducted.

- Institute a "back-up" training program in the Successor area.

- Institute a systematic review of completed Successor Determinations to ensure that all procedures have been followed.

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Take into account both the
Computed Measures and
Program Review findings.

COLLECTIONS

In the Collections function the Systems Review indicated that all
controls were present, and the Acceptance Sample cases verified
that the State's procedures for collection activities were being
followed. The Computed Measures, however, indicated that the
State may be experiencing some problems in managing the
Accounts Receivable.

Computed Measures Findings:

Indicator 1. The percent of employers making timely payments
              was as follows:

	1993	1994	1995
Contr	90.6%	91.0%	91.1%
Reimb	98.1%	98.3%	98.4%

Indicator 2. The turnover ratio (ratio of receivables liquidated
              and declared uncollectible compared to tax due)
              for the past three years was:

	1993	1994	1995
Contr.	1.4%	1.3%	1.3%
Reimb.	1.7%	0.6%	1.6%

Indicator 3. The percent of tax due declared uncollectible was
              as follows:

	1993	1994	1995
Contr.	0.5%	0.8	0.6%
Reimb.	0.2%	0.1%	0.5%

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Computed Measures (cont.)

Indicator 4. The percent of unpaid contributions/reimbursements
              due (the percent of accounts receivable at end of the
              report period compared to tax due) was:

	1993	1994	1995
Contr.	7.2%	7.3%	7.4%
Reimb.	3.4%	3.4%	3.1%

These measures indicated that voluntary payment compliance, the
turnover ratio, and the amounts declared uncollectible have remained
constant; however, the amount of unpaid contributions has continued
to increase. The collection tools currently utilized by the State in col-
lecting past due money should be examined for effectiveness.

Program Review Findings:

All internal controls in the Collections function were found to be in
place, and the Acceptance Sample cases validated that the procedures
were being followed. Thus reasonable assurance that all State collec-
tion procedures were being followed was confirmed, however, the
Computed Measures indicated that accounts receivable were not being
reduced in a timely and efficient manner.

Improvements are needed in the collections procedures. The tools cur-
rently available to the collections unit should be re evaluated, with con-
sideration given to implementing other, more effective methods to col-
lect accounts
receivable.

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Utilize Methods Survey
information from other
States to develop ideas
for recommendations

Recommendations:

- Continue evaluation of the tools and procedures of States X, Y
  and Z (whose Computed Measures data indicate a more efficient
  and/or effective management of their accounts receivable).

- Implement additional collection procedures and/or tools where
  warranted, and where such implementation is feasible.

  Examples of collection tools that should be considered for
  implementation follow:

  1. Develop criteria to identify "chronic" employers and require im-
     mediate lien filing and involuntary collection actions for these
     employers.

  2. Program computer to create a Notice of Tax Lien document for
     any unpaid liability that is 60 days old. In the interim, institute
     manual suspense system to have tax liens initiated when liability
     is 60 days old.

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If cases failed, say how many

If the function performed well
elsewhere, say so

FIELD AUDIT

Reasonable assurance of quality could not be confirmed in the Field
Audit program as five of the Acceptance Sample cases failed. The
Computed Measures, however, indicated that the State did exceed
the DOL audit penetration level requirements and performed well in
total wages audited and in percent of change in total wages audited.

Computed Measures Findings:

Indicator 1. Percent of change in total wages resulting from audits:

1993	1994	1995
1.6%	11.6%	14.3%

Indicator 2. Percent of contributory employers that are audited:

1993	1994	1995
4.3%	2.6%	2.8%

Indicator 3. The percent of total wages audited:

1993	1994	1995
1.2%	2.0%	4.0%

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Computed Measures Findings (cont.)

The percent of change found in audits (Indicator #1) for the last three years has shown a significant increase. This is attributable to a more in-depth search for unreported and misclassified wages, and the targeting of employers for audit using the State's modified IRS 1099 information exchange program.

The second indicator reflects that the State has exceeded the required DLA penetration rate of 2.0%.

The third indicator, percent of total wages audited, has increased during the past 3 years because emphasis is no longer being placed on auditing small employers, and due to the ESM's requirement that one percent of all audits must be large employers.

Program Review Findings:

Reasonable Assurance of quality could not be confirmed in the Field Audit function. The Systems Review revealed that field auditors have not received any form of refresher training. Such training is needed to assure that field auditors are skilled in conducting tests of employer payroll systems, examining the proper employer records, drawing the proper conclusions in their search for misclassified workers, and in providing adequate documentation in their audits.

Risks were identified in the following categories:

● Training - The State has no provision for refresher training for the audit program.

● Recording of Transactions and Events - Adequate documentation is not being provided by the field auditors.

Cite specifically why each case failed.

The risks identified were supported by the failure of the Field Audit Acceptance Sample. Five of the 60 Field Audit Acceptance Sample cases failed. Two cases failed because the verification of the payroll posting system was not completed from a source document. Three cases failed due to inadequate documentation regarding a search for misclassified employees and hidden wages.

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If improvements have been
made, say so.

Program Review Finding (cont.)

Even though five of the Acceptance Sample cases failed, the Field
Audit Program showed vast improvement over last year's review
when 38 out of 60 cases failed. This improvement is due primarily
to the revisions to the Field Audit Manual, update of the Field Audit
forms, and a cursory review of all field audits.

Recommendations:

● Initiate refresher training courses for all field auditors.

● Ensure that field auditors provide supporting documentation
for tests of employer payrolls and when searching for mis-
classified workers.

● Institute a review system whereby all audits are equally subject
to review and also review a greater number of those audits
completed by auditors who have not yet exceeded a predeter-
mined experience level or whose error rate exceeds a predeter-
mined level.

● Consider State X's process of utilizing peers to review the quality
of completed field audits.

If other States have successful
procedures in place, consider
noting them as recommenda-
tions.

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ACCOUNT MAINTENANCE (Employer Debits/Billings)

Reasonable assurance of quality could not be confirmed in the
Account Maintenance function for processing employer debits
and/or billings.

Program Review Findings:

The Systems Review for Employer Debits/Billings was completed
without identifying any risks; however, of the 60 Acceptance Samples
cases, three were found unacceptable which caused the entire sample
to fail the review. Investigation showed this inconsistency directly
related to: 1) the interpretation of the written procedures for pre-
paring reports for scan posting to the computer; and 2) the program-
ming of the computer system.

Explain any inconsistencies

Both factors center around the second line in the "for Dept Use Only"
box on the report forms. This line contains four blocks. Procedures
require staff to darken one of these blocks, depending on what category
the report falls into. Review of the actual report forms showed the
correct block had been identified, but only partially darkened, and
with a light blue pencil mark.

These employers should have been issued a billing that included the
10% late payment penalty and shown the liability as immediately
collectable. However, in all 3 cases, the computer had treated them as
"signed with full payment" reports. Under this category, the computer
issued a billing which allowed an additional 30 days to pay the liability
without penalty. This type billing prevents the Department from
pursuing involuntary collection for 35 days.

Show the problem's impact on
the tax operation

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Program Review Findings (Cont)

The procedures were explicit about which block to mark for each category and these procedures had been reviewed and approved by ADP staff as current, accurate and complete.

However, the procedures did not address the color the pencil to be used, or expressly specify that the entire block must be darkened.

The above factors were compounded by the programming which did not allow for the computer not being able to "see" a mark on the block line. When this happened, the computer would treat the unpaid report as an error in computation report and issue the billing previously described.

Erroneous billings can cause: significant reductions in penalties that should be imposed; a slowdown of action against employers who otherwise meet the criteria for immediate collection actions; inequity for the vast majority of the employer community who pay payroll taxes timely.

Describe the effect of the problem area

Recommendations:

- Immediate use of black #2 pencils in all units preparing reports for computer scanning.

- Instruct first level supervisors to include a cursory review of the size and darkness of the marks in this line on the report when reviewing staff's work for completeness and accuracy.

- Clarify the written procedures to make it clear that the block must be completely darkened and specify use of the correct pencil.

- Modify programming of the computer so that if the computer can't "see" a mark on the block line, that it will post the report to "error suspense" for follow up by the staff of this unit.