NOTE THAT QUESTIONS AND ANSWERS WHICH PERTAIN BOTH TO THE REVISED 581 FORM AND THE REVENUE QUALITY CONTROL REVIEW WILL BE FOUND IN THIS SECTION. THOSE THAT PERTAIN ONLY TO RQC WILL BE FOUND IN THE SECOND SECTION, REVENUE QUALITY CONTROL QUESTIONS AND ANSWERS.

REVISED FORM ETA 581

QUESTIONS AND ANSWERS

Space for Standard Form ETA 581

Tax Function Global
Problem Type: Multi-Unit Employers

See Attached Grid

March, 1995

Tax function Global
Problem Type: DOCUMENTATION FOR ELECTRONIC FILING/PAPERLESS SYSTEMS

With "state of the art" equipment and programs that encourage the concept of "paperless" reporting and recording, questions arise as to what constitutes acceptable documentation for RQC review purposes.

Similar to the earlier paper systems, automated paperless systems need audit trails so that original input is recorded and retained. If an audit trail does not exist, there is potential for fraudulent activity, and the RQC review finding would need to indicate that a risk exists within such a system.

Hard copies, microfiches or imaging of original information provide the necessary audit trails. For employers filing wage and contribution information electronically, on disk or tape, a copy of reported/recorded information loaded into the employers' account/file would be considered as an "original" document and provide an audit trail.

After the original information is entered, additions, changes and deletions are often made to employer files. Sound operating principles call for some means to capture the information which caused the alteration to take place. If, however, the RQC reviewer comes across a system which simply overlays new information over the original, without any apparent provision for an audit trail, the reviewer could look to the DP unit, since most States retain a back-up file (tape, disc, etc.) of the computer program runs. Such data are usually held at an off-site location for periods of time for rebuilding data files, when necessary. These back-up files could be utilized to recreate the data needed for RQC review purposes.

The reviewer should check with the DP or Internal Security unit to discover how they recreate the original information (short of running every single back up tape), and the method used to catalogue information so that one can tell if he/she is looking at original versus adjusted information.

"Original" (paper copies, imaging, microfiche, etc.) documents for the Acceptance Sample cases must be retained until the Annual Report is complete and signed off by the SESA Administrator and the Regional Office representative. If SESA record retention requirements have not been examined to date, this should be done immediately to ensure that necessary records are being retained for the appropriate time periods required to conduct the RQC reviews.

FORM ETA 581
End of Quarter Employers (Items 1-3)

Question 4. Why are contributory and reimbursable employers counted separately on the ETA 581?

Answer: Contributory and reimbursing employers are reported separately on the ETA 581 because their differing methods of financing benefits have different effects on the State's Trust Fund. The proportion of receivables attributable to each of the two categories of employers can be determined by separate reporting and can be compared to receipts and disbursements on other ETA reports (e.g., ETA 2112) which also separate the two categories. The separate count also accommodates the use of the number of contributory employers as the base to compute audit penetration rates.

Question 5. The following questions concern the definition of active employer:

The definition of "active employer" is stated as: An "employer" (single or multi-unit) under the State unemployment compensation law, currently registered and required to file reports, who has paid and reported wages during one or more of eight consecutive calendar quarters which includes the quarter being reported.

(a) Should employers who are required only to report some quarters but not all quarters or on some basis other than quarterly (e.g. seasonal employers) but are otherwise considered active, be included in every quarterly count of active employers?

(b) Because of the timing between the normal receipt and posting of employer reports and the due date of the ETA 581, isn't it almost impossible to ascertain if employers still meet the requirements of the definition of active employer and be included in the count for the ETA 581 quarter "being reported"?

(c) If an employer submits "no wages" reports for the seven quarters prior to the ETA 581 report quarter, has not yet been made inactive, and is expected to submit a contribution report for the eighth quarter but has not (wages have not been reported), is the employer included in the count of active employers as of the end of the report quarter (eighth quarter)?

FORM ETA 581
End of Quarter Employers (Items 1-3) --Continued

Answer:
(a) Employers who may not be required to file a contribution and/or wage report every quarter but are required to meet an alternate filing requirement and are otherwise considered active, should be included in the count of active employers for each report quarter.

(b) The count of active employers includes the ETA 581 quarter being reported based on information available (employer reports received) at the time the ETA 581 is completed.

(c) If an employer has submitted "no wages" reports for the previous seven quarters and has not submitted a report by the time the ETA 581 is being completed, the employer is still counted as active (with a report delinquency).

FORM ETA 581 (Item 4)
Report Delinquency

Question 4. Delinquency cut-off date - Page II-2-4. Item by item instructions - Page II-2-8. There is a possible discrepancy between the definition and the item by item instructions. The definition states the "notification" date is the cut-off date. The item by item instructions state to enter the date the employers "...were identified and notified of such by the mailing of the first delinquency notices". Since the date delinquent employers are identified can be different from the date they are notified, which date should be entered on the ETA 581?

Answer: The intent of the data element is to determine if SESAs are notifying employers of report delinquencies in a timely manner. The notification date is used.

FORM ETA 581
Problem Type: Status Reporting (Items 14-19)

Question 1. If the SESA allows a reimbursing employer to change to a contributory account:

(a) Is this a Status Determination?

(b) How is it counted for the 581 and Computed Measures?

Answer:
(a) Yes, it is a New Employer Status Determination.

(b) It should be included in the 581 count for Item 14. If it is necessary to inactivate or terminate the reimbursing account in order to make the New Determination, it should also be included in the 581 count for Item 20 (Inactivations/Terminations). For Items 1-3, (End of Quarter Active Employers) it should be counted in whichever category it belongs at the time the count is taken. The liability date for the new contributory account is the date the account is made effective as a contributory account.

Question 2. The definition of successor states "... and is declared subject as of the date on which it meets the requirements of the State unemployment compensation law for successorship." This is confusing in States that have broad coverage requirements (e.g. subject employment exists if there is any employment for any portion of any day or there is a payment for service that exceeds more than one dollar) because the employer is subject whether there was a succession or not. Why is "declared subject" part of the definition?

Answer: We will add words to clarify ".....declared subject <u>as a successor....."</u>

FORM ETA 581
Status Inactivations/Terminations (Item 20)

Question 1. What is the purpose of the inactivation/termination count? How is it used?

Answer: Although this information is no longer used to determine the number of active accounts, it is still a reportable activity of a State's contribution operations. Other Federal government agencies use it for statistical projections. For example, the Small Business Administration activity report uses the information as a factor in projecting change in its employer population.

Question 2. If an employer submits "no wage" reports for 6 quarters and then fails to submit reports for 2 quarters which are then assessed as a matter of SESA procedure, should the account be inactivated based on the 8 quarter "no wage" criteria or should it continue to be counted as active?

Answer: The account should continue to be counted as active until the actual inactivation decision is made by the SESA. Example: The SESA receives wage reports for 6 quarters which report no wages and then receives no more reports. The SESA follows its procedures and makes assessments of zero wages for the next two quarters and inactivates the account based on 8 quarters of no wages. The account should be included in the active count until the actual inactivation takes place.

Question 3. If 8 quarters of "no wage" contribution reports have been submitted and the employer account is automatically inactivated without a person actually making a determination:

(a) should the account be included in Inactivations/Terminations (Item 20)?

(b) Should the account be included in the RQC Acceptance Sample universe for Inactivations/Terminations?

Answer:
(a) Yes, whether a person makes a determination or the system automatically inactivates the account, it should be included in the 581 count of Item 20 (Inactivations/Terminations).

(b) Yes, an account automatically inactivated should be included in the Status Inactivations/Terminations Acceptance Sample universe.

FORM ETA 581
Status Inactivations/Terminations (Item 20)--Continued

Question 4. If after 8 quarters of "no wage" reports accounts are counted in item 20 for ETA 581 purposes, but the SESA continues to keep the account active on its records and at some later date inactivates the account, should the account be included on the
ETA 581 again? Should the inactivation be included in the Inactivation/terminations RQC sample universe?

Answer: If an employer account is automatically inactivated by a computer program upon submission of "no wages" reports for eight quarters and is counted in item 20, inactivations/terminations, at that time; the account should not be included in item 20 a second time when the account is inactivated in the State's internal records. For both instances, the inactivation is considered as one transaction on one employer account and should be included in the RQC sample universe for inactivations/terminations.

FORM ETA 581
Problem Type: Receivables (Items 21-44)

Question 6. Declared Uncollectible - Item 21, Page II-2-6 Should amounts legally and officially written-off on active accounts (e.g., an amount either exceeds statute of limitations or the agency and the employer have agreed to a "compromised amount") be excluded from this category? If yes, where should they be reported?

Answer: The phrase "on an inactive or terminated account" is being deleted from the definition of declared uncollectible since it is permissible in some States to declare an amount attributable to an active account as uncollectible. Therefore, all amounts declared uncollectible, regardless of the status of the accounts, should be reported in the appropriate item (24 or 36) on the ETA 581.

Question 7. (a) Age of Receivables - Contributory Employers, Page II-2-15. This instruction states that receivable amounts should be counted from the end of the quarter for which contributions are due. Since the contributions aren't due until the month following the quarter, shouldn't the count start then? How can a receivable be aged starting at a date before it was due when, by definition, the amount must be past due before it is considered receivable?

(b) Age of Receivables - Reimbursable Employers, Page II-2-18. The instructions state that the age of the receivable amount should be calculated from the date payment was due. Shouldn't the calculation be from the date the payment was considered past due since the amount can't be considered a receivable by definition until it becomes past due?

Answer (a) and(b): In accordance with General Accounting Office and U.S.Treasury requirements for financial reporting by Federal agencies, ETA must report financial data which includes amounts receivable. The reporting system, based on modified accrual accounting, reports assets and liabilities when they occur rather than when cash is actually received or paid. Based on this premise, the actual age of a receivable amount is determined from the date the debt is incurred (the end of the quarter for which contributions are due) not the date it was established as being past due or a receivable. This method also ensures that States are calculating the age of receivables on the same time basis, rather than individual arbitrary dates.

Question 8. Declared uncollectible - Item 24, Removed from Active File - item 25, Page II-2-14. If payment is received for amounts reported in items 24 & 25, should it be shown on the ETA 581 report? If yes, how?

Answer: To report payment received for an amount which has previously been declared uncollectible in item 24 or 36, re-establish the amount as a receivable in item 22 or 34, and include the amount in item 23 or 35 as being liquidated. The same transactions apply to report payment for an amount that has been removed from the balance of receivables because of age in items 25 and 37.

Question 9. Amount Determined Receivable...- item 22, Page II-2-14. What is an example of accounts that are not "legally collectible"? If delinquent payment of an amount not considered legally collectible is not reported on the ETA 581, how will DOL know if the State has effective collection methods?

Answer: In the definition of receivable, the phrase "legally collectible and enforceable" is in reference only to estimates, assessments and final assessments. Any amount that is legally binding upon an employer regardless of how it is termed (estimate, assessment, final assessment) is legally collectible and, thus, considered a receivable. This issue is not a major factor in determining the effectiveness of a State's collection operations.

Question 10. The definition of receivables states that this includes "past due" contributions. Does this mean that:

(a) If a delinquent contribution report is received by the agency with payment that the contributions due should be considered a "receivable" and the accompanying payment should be considered a "liquidated receivable"?

(b) If a contribution report is received early without payment establishing a debit and then a payment is received timely, should the amount of the debit be counted as a "receivable" and the payment counted as "liquidated" even though the amount payable is not "past due"? This is done routinely at this time because it is impractical to try to sort timely, unpaid amounts from past due, unpaid amounts.

Answer:
(a) In accordance with the option that is more practical for its collections operation, a State may elect to either consider the entire amount of contributions due as a receivable and the amount being paid as a liquidated receivable or only set up the amount not being paid as a receivable in "determined receivable". In either case, the same net amount will be reflected in the receivables balance on the ETA 581.

(b) A payment that is not received with a contribution report that is submitted early is not "past due" and should not be included in receivables transactions.

Question 11. According to the definition, an adjustment which cancels a previously established receivable should be counted as "liquidated". Does this include the correction of clerical and/or input errors? For instance, if a receivable amount of $600 was incorrectly recorded as $6,000, should this be corrected by increasing receivables liquidated by $5400? How does RQC look at this figure: as managing receivables or as managing collections?

Answer: It is correct to include in "liquidated" an adjustment to correct a clerical or input error. In the example given, a receivable <u>was established</u> and counted, even though in error. The adjustment is to cancel the amount set up in error. If the "liquidated" item is composed mainly of adjustments or of one large adjustment, it should be footnoted as such. It must be remembered that the items on the form between "total receivables at the beginning" and "total receivables at the end" attempt to summarize the transactions which caused the balance of receivables to change from the beginning to the end of the quarter and that every conceivable type of transaction cannot be reported separately.

Question 12. How can the portion of contributions that is forgiven or declared uncollectible in a compromise agreement for an active employer account be included in "amounts declared uncollectible" when the definition of uncollectible infers that amounts can only be declared uncollectible on inactivated or terminated accounts?

Please clarify how to handle "Compromise settlements"
Example: $100 A/R over 15 months old - you have a "compromised settlement" and collect $30:

(a) Where do you report the uncollected amount? Do you put the $70, in declared uncollectible or in "doubtful accounts"?

(b) If the $100 is already in item 25, can the $30 be moved into accounts receivable and liquidated with the $70 remaining in item 25?

Form ETA 581 Report
Problem Type: (Receivables (Items 21-44) Continued

Answer: The phrase "on an inactive or terminated account" is being deleted from the definition of declared uncollectible since it is permissible in some States to declare an amount attributable to an active account as uncollectible. Therefore, all amounts declared uncollectible, regardless of the status of the account, should be reported in the appropriate item (24 or 36) on the ETA 581. Please disregard the phrase in the instructions until a revision is issued.

The compromise represents an adjustment to the original receivable amount, e.g., instead of $100, it is reduced to $30, the actual amount of payment.

(a) If the $100 has <u>not</u> been declared uncollectible, an adjustment of -$70 is included in item 22 or 34 (determined receivable during period) and the amount collected, $30, is included in item 23 or 35 (liquidated).

If the $100 has already been declared uncollectible in item 24 or 36 on a prior report, an adjustment of $30 is included in item 22 or 34 to reestablish a $30 receivable, and the $30 collected is included in item 23 or 35 (liquidated). The $70 difference has already been negated when the original $100 was declared uncollectible.

(b) If the $100 has been removed from the receivable balance through items 25 and 37 on the ETA 581: An adjustment of $30 is included in item 22 or 34 to reestablish a $30 receivable, and the $30 collected is included in item 23 or 35 (liquidated). The $70 difference has already been negated when the original $100 was removed from the balance of receivables in items 25 and 37.

Question 13. Removed from Active File - items 25 and 37. Instructions are needed for the initial entry for this item. (1) If a State can currently determine which receivables meet the age requirement to be reported in this item, should the State move those receivables into this item? Or,(2) should the count for removing receivables from the active receivables start with January 1995, leaving the old receivables in items 32 and 44 for two consecutive ETA 581 report periods?

FORM ETA 581
Problem Type: Receivables (Items 21-44)--Continued

Answer: In the final release of the ETA 581, a note added to the instructions for items 25 and 37 indicates that States should begin reporting in these items with the initial March 31, 1995 report. However, if it is impossible to identify whether a receivable amount has been shown in the oldest age categories on the two previous reports when completing the March 1995 report, reporting for Item 25 and 37 will have to be done when it is possible to accurately do so.

FORM ETA 581
Field Audit (Items 45-57)

Question 3. At what point are audits considered complete for counting purposes on the ETA 581? According to our interpretation of RQC, audits should not be included in the computed measures count or in the Acceptance Sample universe until everything is complete, including appeals hearings and posting of any adjustments resulting from the audit. Why must appeals be heard and adjustments posted before the audit program can count the audits for penetration and before the reviewer can examine the case?

Answer: A field audit should be counted on the ETA 581 and included in the RQC Acceptance Sample after the auditor has completed all work, and it has been subject to whatever review the SESA requires and adjustments are prepared. It is not necessary for adjustments to be processed nor the appeal to be heard prior to counting the audit on the ETA 581 and in the Field Audit Acceptance Sample.

If it is selected for an RQC review, the reviewer should insure the necessary follow up is in progress, such as the adjustments posted or the case referred for appeal.

Question 4. What should drive tolerances used to determine whether a field audit should be extended? Difference in gross wages? Taxable wages? Tax due? How much difference in any of these area should be established as the tolerance level (e.g., 2%, 5%, 10%)?

Answer: See ESM Part V, Section 3671 definition of tolerance, and ESM 3675 B, extending the audit.

Tolerance is an area established by the individual SESAs for their audit programs, and is based on criteria established by the individual SESA. Due to the vast differences in tax rates and taxable wages among the States, no national tolerance level nor methodology can be defined that would be applicable to all SESAs.
Note: This is an area that will be addressed in the proposed Field Audit Methods Survey for information on best practices of the States.

Question 5. Does the definition of a large employer refer to pre-audit figures or post-audit figures?

Answer: The audit selection would be based on the pre-audit figures of the year preceding the year audited if based on the dollar amount or on the reported wages of 100 or more workers in the current or preceding year.

If after completion of the audit, it was found that the taxable wages were over one million dollars and/or the employer had 100 or more employees in the year being audited, then the audit would also meet the criteria of a large audit and could be counted as such on the 581 report. Thus, either pre-audit or post-audit figures could be considered correct.

Question 6. If, while conducting an audit, an auditor finds workers and wages for another State, should the auditor conduct an audit which includes those wages? Should the information be shared with the other State? Which State counts the audit? Both? Which State counts the change?

Answer: The auditor should conduct the functions required by ESM and RQC for the assignment to be correctly classified as an audit for his/her SESA. The identification by the auditor of the correct payroll for his/her specific SESA should be found in the documentation of the audit. The audit as well as any adjustments to their audited payroll would be counted by the State performing the audit.

The information regarding the other State's reportable wages should be noted in the body of the audit and the information should be shared with the other State based on the auditing SESA's field audit policy and procedures on initiating out-of-state contact.

A similar question:

Large employer computerized field audits are completed by a State's field auditors (a special team which works out of central office) on behalf of other States as well as their own State. Results of the audit are shared with the other State(s) as appropriate and the other State accepts their findings just as if it had been done by one of their own auditors. Should these audits be included in the universe of audits for the receiving State?

Answer: As the audit was not completed by a member of the staff of the receiving state, the audit would <u>not</u> be counted as an audit in the receiving State's universe. The adjustments would be processed as needed, but the audit would not be counted.

Please note that Joint Audits, where more than one State's auditors perform the audit together, would be counted in each SESA's audit universe.

REVENUE QUALITY CONTROL
QUESTIONS AND ANSWERS

PLEASE NOTE THAT QUESTIONS AND ANSWERS WHICH PERTAIN BOTH TO THE REVISED 581 FORM AND THE REVENUE QUALITY CONTROL REVIEW WILL BE FOUND IN THE FIRST SECTION, REVISED FORM ETA 581.

March, 1995

Tax Function: Status
Problem Type: Computed Measures

Question 9. Why are "New" and "Successor" Determinations being counted separately for computed measures? In Computed Measures, isn't the important thing that a subject employer is set up in a timely manner, regardless of whether it is a new employer or a successor employer? Information may be received that shows that an employer is subject under the law and the account may be set up right away, but it may be much later before information is received indicating that the employer was a successor. This could make it appear that the SESA isn't doing a good job of setting up accounts, when in fact, they are setting accounts up in timely manner.

Answer: In Status Computed Measures, we are looking at the timeliness of Status Determinations. With new accounts there is a need to get the benefit information into the system and to start collecting taxes. For these reasons, in some States successors which have not previously been employers are set up as new accounts first.

Some States allow employers as long as a year to apply for successorship. By their nature, it takes more time to process Successor Determinations. Also, since Successor laws vary greatly from State to State, there is a need to measure them separately to accommodate these differences. By reporting each category separately, a more accurate picture of timeliness within the SESA for each category is obtained.

Tax Function: Status
Problem Type: Acceptance Sampling

Question 18. Acceptance Sample--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? What if the State has no written policy? Should this question be answered "no"?

Answer: No. The intent of the question is to ensure that the correct determination is made based on SESA laws. If the Status Determination was made correctly, the question should be answered "yes" and the sample case should pass the review. If the SESA has a deficiency in their written procedures or policies, a risk should be identified in the Systems Review. However, it is the Acceptance Sample which determines whether or not the case passes or fails.

Tax Function: Cashiering
Problem Type: Systems Review

Question 10. The State does not utilize a suspense account/exception file for the cashiering function. Remittances and/or reports that are not processed are returned to employers with a status (registration) form. The State does not follow-up on these returned items or maintain a record or listing of the items returned to the employer. In the Systems Review questions 5 & 6 on pages 26 & 27 reference controls for handling monies and reports which are not processed in the normal flow. The State is requesting that a "not applicable" (N/A) be allowed for these questions.

Answer: The State will have to answer these questions "No", and indicate a risk if no suspense account/exception file is maintained, and if they have no method of tracking the returned items. N/A is not appropriate for this question. (Note: This question even has a verification test to check 12-15 remittances in the suspense account/exception file. The intent of asking this question is to ascertain that SESAs maintain such controls in the cashiering function. A State without such controls would not be able to conduct the required verification test.)

Tax Function: CASHIERING
Problem Type: Lockbox Operations

Question 1. Question 3n asks "Does the procedure require a match or comparison between the paper report and the electronically transferred funds?"

This question does not take into account that there are States where reports can be submitted by magnetic media/computer diskette or electronically submitted and, therefore, no paper reports are required. How is this question to be answered in States that are becoming paperless? Does the use of media other than paper put the State at "risk"?

Answer: No. SESAs are encouraged to make enhancements to their reporting systems. As long as internal security is built into electronic reporting, there is no finding of "risk". For further details on documentation for paperless systems see Global "Documentation for Electronic Filing/Paperless Systems"(first section of the March 1995 Q&A).

Tax Function: CASHIERING
Problem Type: Acceptance Sampling

Question 6. A Quality Appraisal review has never been completed in this State. When inquiring about how to extract a sample for RQC, part of the instruction was to "estimate the number of receipts expected for the quarter". No instructions were given on how to estimate the receipts. How should this be done?

Answer: Instructions for the Cashiering Section of the RQC Handbook are being rewritten and will be pilot tested this summer. The proposed instructions in the revised section will state: "estimate the number of receipts expected for the quarter". This estimation will be calculated by taking the number of receipts from the second quarter of the prior calendar year and adding the percentage of growth experienced by the SESA during the remaining quarters of the year. This calculation will result in the "estimated number of receipts" for the review quarter. After the pilot test, further changes may be made.

Tax Function: Report Delinquency
Problem Type: Computed Measures

Question 14. RQC is using a different time period for the numerator than we are using for the denominator for the Report Delinquency measures #1 and #4 (Timely Employers). Is this correct?

Timely Employers: (Measure #1)-Contributory Employers:

$$\frac{\text{The Average number of contributory employers filing reports timely for four (581) report quarters}}{\text{The average number of active contributory employers for four (581) report quarters ending one quarter earlier}}$$

Timely Employers: ((Measure #4)-Reimbursing Employers:

Same as above formula using reimbursing instead of contributory employers

Answer: Yes. For example, the number of employers filing timely for ETA 581 reports ending with the January - March quarter (Items # 6 and # 9) are used in the numerator. These are counts of contribution reports submitted timely by employers (the quarters preceding the ETA 581 quarter). The number of active employers (Items # 1 and # 2) used in the denominator will be taken from the UI data base using the ETA 581 reports for four quarters ending with the October - December quarter.

The logic is that employers active at the end of the fourth quarter (reported on the October-December ETA 581) will be sent reports which are received in the first quarter wherein we can determine if they are received timely and counted on the January - March ETA 581). However we average four quarters.

Tax Function : Report Delinquency
Problem Type: Acceptance Sampling

Question 5. Instructions say to create universe as soon as the delinquency date has passed, and to select the sample after processing cycle is completed. We assume this timing is to allow all actions States will take to be completed before cases for review are selected and evaluated.

One State tried to do its review this way and got an unusable sample. Their system produces a computer screen which is a facsimile of what employer receives and that is what the RQC reviewer needs to review in order to complete the A/S. However, that screen facsimile is overwritten by any subsequent activity and the RQC reviewer has been told there is no way the screen can be saved.
The RQC reviewer has requested permission to have DP go ahead and select a sample at the same time as the universe is created so that the facsimile screens can be printed out and saved. He would then put the 60 cases aside (under lock and key if necessary) and wait to complete review. No one in an operational capacity would know which cases were selected.

Answer:
The above scenario would allow potential for manipulation. A better solution would be for DP to make a backup file (tape, disk, etc) of the computer run of the delinquencies, that would be the universe. Then the file to select the sample can be used to recreate the screens needed by the RQC reviewer.

Many States are going paperless and use their screens for online history. This is going to be a potential problem for many of them as they will have no paper copy of the actual mailing to the employer and will have to rely on the computer backup file/run. The timing allows the States to complete their R/D procedures before cases for review are selected and evaluated.

Tax Function: Collections
Problem Type: Other

Question 2. Consider making the RQC Reviewer responsible for looking at only the last two years rather than three years in the Collection Acceptance Sample cases . These cases are very time consuming, and if DOL is going to ask that ARs over 24 months old not be reported on the 581, why not make the A/S case go back only 24 months?

Answer: We will consider this suggestion along with other feedback before the final RQC Handbook is issued. However, such a change will not be made at this time.

Tax Function: Field Audit
Problem Type: Acceptance Sampling

Question 31. What about field audit cases in the universe that were originally blocked claims or report delinquency assignments that were audited but fail to actually meet the ESM requirements for being counted as an audit? How will these cases fail? We cannot throw out the entire universe if a field audit does not really meet the ESM requirements, and if all the documentation is acceptable, how will the audit fail? There really is no question that addresses whether the audit meets the ESM requirements. Perhaps we should have an opening question regarding each Field Audit Case: Does this FA case meet the ESM requirement? If no, it fails - no need to go for the points.

Answer: For a case to be included in the field audit universe for acceptance sampling it must meet ESM requirements of the definition of an audit. ESM Sections 3671, 3675 and 3687 identify the definition, scope and contents that are required for an assignment to be considered an audit, and included in the universe for acceptance sampling. The assignment may be initiated as an audit or converted to an audit pursuant to ESM guidelines.

Assignments found in the field audit universe that do not meet the ESM definition of an audit should be failed. The rationale is the assignment was coded by the SESA as an audit and would therefore be found in the required report information (i.e., ETA 581 etc.) and alters the true count and dollar figures, for the report period(s).
A variation of this question will be added to the Field Audit Acceptance Sample:

Question: "Was this assignment correctly identified as an audit in conformity with ETA audit policy as defined in the ESM?"

Yes_____ No_____

A "No" answer will fail the entire case, and the rest of the questions in the Acceptance Sample would not be answered. If such a case was selected for review and did not meet the requirement as an audit, then this would be a failure of one case and could not be replaced with another case.

Tax Function: Field Audit
Problem Type: Acceptance Sampling (Continued)

Question 32:
(a) In the course of an audit assignment, an auditor discovered that the employer maintained no records because they were now "leasing" all workers, including corporate officers, from an "Employee Leasing Firm". Would the audit pass review by RQC when the auditor examined no records?

(b) The auditor is conducting an audit and finds that the employer has, after a period of time in the year being audited, started "leasing" all workers, including officers, from an "Employee Leasing Firm", and is no longer maintaining records. Thus the auditor can only submit an audit on the quarters for which he/she had the records. Will this audit pass a RQC review?

Answer:
(a) The assignment would not be considered an audit under EMS field audit policy and would thus fail the newly added question noted in question 31. It should not have passed review as an audit and should never have been included in the field audit universe. It would be a Fail and the RQC reviewer need not answer the rest of the Acceptance Sample questions.

(b) Yes, if the audit of the available quarter(s) was complete and the tests for payroll accuracy and misclassified workers were conducted on the records available, then the audit would pass. The auditor would have to document why the records were not maintained and available on the other quarter(s) of the year under audit.

Question 33. How much documentation is enough? Are field auditors expected to look at every record that the State requires employers to maintain?

Answer: The audit should include sufficient information to: (1) adequately respond to the nine items required in the ESM Part V, Section 3687; (2) indicate the source of the information used to respond to the items; (3) state the auditor's conclusions and; (4) provide evidence to support the auditor's conclusion.

RQC established <u>minimum</u> standards for documentation requirements. Field Audit Chapter VII pages 45 through 49 identifies these requirements for both questions 4 and 5. The information found in each of the tests for questions 4 and 5 builds and supports the reliability and credibility of the audit findings. It is therefore, necessary to document the evidence that supports the findings and conclusions identified in the audit. The SESA audit procedure should be the benchmark on documentation requirements.

Tax Function: Field Audit
Problem Type: Acceptance Sampling (Continued)

Question 34. Audits are extended because discrepancies are detected during the audit. Since it is apparent that problems exist, it would be redundant to conduct all the RQC payroll tests on the quarters included in the extension. Will States have to complete all the RQC tests on the quarters the audit was extended to cover?

Answer: No, unless the auditor suspects inaccuracies in the payroll system during the period the audit is extended to cover, there is no need to repeat the payroll accuracy tests that were conducted to cover quarters in the original scope of the audit. However the search for misclassified workers and hidden wages must be conducted on all quarters covered by an audit, including the quarters that the audit was extended to cover. If wages or tax are adjusted on quarters for which no search for misclassified workers or hidden wages is conducted, the quarters are <u>not</u> to be counted as quarters audited and the adjustments for those quarters are <u>not</u> to be included in the audit under-reported or over-reported figures.

QUESTION 35. Are the audits that are done during 1995, going to be subject to the quality test effective in CY 1996? In other words, should the RQC guidelines be used starting in January 1995 because they'd be in the acceptance sample universe that is pulled in 1996.
Answer: Effective January 1996, the Field Audit Acceptance Sample universe will officially begin to be built. In 1997, samples of these audits will be examined by the RQC reviewer. However a large proportion of States are reviewing their 1994 and 1995 audits under RQC guidelines now so that adjustments and improvements can be in place well before mandatory review in 1997. Note also that audits selected late in 1995 may be completed in 1996, thus placing them in the 1996 sample universe and subject to "official" RQC review.

Tax Function: Field Audit
Problem Type: Other

Question 6. In cases where employers submit "no wage" reports for 8 quarters and are ultimately inactivated, the accounts are no longer part of the universe from which field audits are drawn. What vehicle is the SESA to use in determining if the employer incorrectly decided the employees were independent contractors or if the employer really has no employees?

Answer: The individual SESA selects the vehicle they use to investigate accounts to determine if the employer has correctly or incorrectly decided they have no employees. The SESA does not have to wait for 8 quarters of "no wage" reports to be filed before the account is referred for such investigation. Also the SESAs set the parameters for the field audit selection process and these accounts could be included in the universe.

Tax Function Global (Account Maintenance)
Problem Type: Acceptance Sampling

Question 1. Account Maintenance Acceptance Sample instructions state that the contribution reports must be pulled and compared with the information on the State's computer system. How should the review be conducted in States that do not require paper reports, but rather receive the employers' information via magnetic media/diskette or electronically?

Answer: The State needs to get as close to the original information as reported by the employer as is feasible and any intervening processing of the information may obscure the original data.

An imaged copy is an actual copy so these may be used. Use of other computerized records must be dealt with on a State-by-State basis. Please contact your regional representative if you are interested in using computer records in lieu of copies of the actual reports.

Note: In general, 1) the computerized records must accurately reflect what was actually shown on the report form; 2) the figures must actually be recorded on the data base (as opposed to being calculated from other figures on the data base); 3) the fields must have edits to prevent any overwrite or any other method of changing those fields, and 4) Regional Office approval must be secured.

Answer: See also Global answer "Documentation for Electronic Filing/Paperless Systems", March 1995.

March, 1995