

UNEMPLOYMENT COMPENSATION (UC) TAXES FIELD AUDIT DOCUMENTATION

I. Purpose of work paper(s)

- principal record of the work the auditor has done.
- supports the conclusion(s) reached.

II. Format of work paper(s)

All work papers will have:

- label or identification of test, reconciliation, or statement
- employer name and account number
- period covered

III. Documenting Tests of Acknowledged Payroll

1. Objective: Verify payroll posting system.

Process: Trace transactions of at least one employee's wages from source document(s) through to printout or copies of the UI contribution report. The comparison may be annual or quarterly.

Work paper(s) Should record as evidence for each individual tested:

- identify the records examined including source document
- name
- SSN
- amount of pay and dates of payments
- total wages
(May be in the form of calculator tape, copies of documents, work papers).

2. Objective: Reconcile total payroll to total wages.

Process: Compare a payroll record which was established as correct through 1 above (e.g., W-2's, payroll summaries, individual earnings record, payroll journal or ledger) to UI contribution report. The comparison may be quarterly and/or annual.

Work paper(s) Should record as evidence:

- identity of payroll record being used*** (Deleted "source document")
 - calculation of total payroll
 - explanation of variances/differences
3. Objective: Compute total taxable payroll

Work paper(s) Should record as evidence:

- identity of payroll record being used
- calculation of total taxable payroll

4. Objective: Reconcile verified total taxable payroll to total taxable wages.

Process: Compare the verified total taxable payroll arrived at in Objective 3 above to the total taxable wages reported on the UI contribution reports. The comparison may be quarterly and/or annual.

Work paper(s) Should record as evidence:

- summary calculations
- explanation of variances/differences

IV. Documenting Search for Misclassified Workers and Hidden Wages

Objective: Search for hidden wages and missclassified workers by examining financial records and tax forms, such as, but not limited to records of contract labor, cash disbursements, general ledger, chart of accounts, and miscellaneous reports and accounts.

1. **Process: Examine records of contract labor Includes, but is not limited to:**

- 1099's MISC and 1096 summaries.
- master vendor file.

Finding:

2. No suspicion (payment not suspected to be wages) or was identified and examined elsewhere in the audit work paper(s).

Work paper(s) should record as evidence:

- classification of categories of payment
- findings (no hidden wages), or
- reference to other work paper(s) which identify and examine these individuals.

3. Suspected wages (payment suspected but not found to be wages) and not identified and examined elsewhere in audit work paper (s).

Work paper(s) should record as evidence:

list of individuals or labor categories examined

- evidence that payments do not constitute wages
- findings

4. Payment to individual(s) found to constitute wages and not identified and examined elsewhere in audit work papers(s).

Work paper(s) should record as evidence for each individual found:

- audit period
- name of payee
- total quarterly amount
- evidence that payments were wages
- findings
- adjustment reports can be used when the reviewer can trace each individual discovered through the tests (e.g., records of contract-1099's, cash disbursements-check register, detailed general ledger, miscellaneous reports-corporate minutes) to the resulting increases and decreases in total wages and taxable wages.

5. **Process: Examine cash disbursements Includes, but is not limited to:**

- cash disbursements journal
- petty cash journal
- check register
- cancelled checks/check stubs

Finding:

6. No suspicion (payment not suspected to be wages) or was identified and examined elsewhere in the audit work paper(s).

Work paper(s) should record as evidence:

- checklist or summary statement of accounts reviewed and findings

7. Suspected wages (payment suspected but not found to be wages and not identified and examined elsewhere in audit work paper(s)).

Work paper(s) should record as evidence:

- list of individuals or labor categories examined
- evidence that payments do not constitute wages
- findings

8. Payment to individual(s) found to constitute wages and not identified and examined elsewhere in audit work paper(s).

Work paper(s) should record as evidence for each individual found:

- audit period
- name of payee
- total quarterly amount
- evidence that payments were wages
- findings, or
- summary statement that suspect account was found and traced to a specified account, referencing another workpaper.
- adjustment report can be used when the reviewer can trace each individual discovered through the tests (e.g., records of contract-1099's, cash disbursements-check register, detailed general ledger, miscellaneous reports- corporate minutes) to the resulting increases and decreases in total wages and taxable wages.

9. Process: Examine detailed general ledger and if available chart of accounts

Finding:

10. No suspicion (payment not suspected to be wages) or was identified and examined elsewhere in the audit work paper(s).

Work paper(s) should record as evidence:

- checklist or summary statement of accounts reviewed and findings

11. Suspected wages (payment suspected but not found to be wages) and not identified and examined elsewhere in audit work paper(s)).

Work paper(s) should record as evidence:

- list of individuals or labor categories examined
- evidence that payments do not constitute wages
- findings

12. Payment to individual(s) found to constitute wages and not identified and examined elsewhere in audit work paper(s).

Work paper(s) should record as evidence for each individual found:

- audit period
- name of payee
- total quarterly amount

evidence that payments were wages

- findings, or
- summary statement that suspect account was found and traced to a specified account, referencing another work paper.
- adjustment reports can be used when the reviewer can trace each individual discovered through the tests (e.g., records of contract-1099's, cash disbursements-check register, detailed general ledger, miscellaneous reports-corporate minutes) to the resulting increases and decreases in total wages and taxable wages.

13. **Process: Examine miscellaneous reports and accounts**

- state tax return
- federal income tax returns
- financial statements
- corporate minutes and records

Findings:

14. No suspicion (payment not suspected to be wages) or was identified and examined elsewhere in the audit work paper(s).

Work paper(s) should record as evidence:

- checklist or summary statement of accounts reviewed and findings

15. Suspected wages (payment suspected but not found to be wages) and not identified and examined elsewhere in audit work paper(s)).

Work paper(s) should record as evidence:

- list of individuals or labor categories examined
- evidence that payments do not constitute wages
- findings

16. Payment(s) found to constitute wages and not identified and examined elsewhere in audit work paper(s).

Work paper(s) should record as evidence:

- summary statement that suspect account was found and traced to a specified account. You will be required to reference an existing work paper containing the individuals identified or prepare a work paper.
- adjustment reports can be used when the reviewer can trace each individual discovered through the tests (e.g., records of contract-1099's, cash disbursements-check register, detailed general ledger, miscellaneous reports-corporate minutes) to the resulting increases and decreases in total wages and taxable wages.

V. **Other Documentation**

Nine Requirements of a Field Audit

1. **How Existence of Business Verified.**

Audit Report should include at least one of the following explanations:

- A. On site visit.
- B. Personal knowledge (Needs to be explained or defined).
- C. Other items in accordance with State audit procedures (e.g., business license, business advertisement in yellow pages).

2. **How ownership Verified.**

Audit Report should include at least one of the following explanations:

- A. Partnership agreement
- B. Articles of incorporation or Corporate charter.
- C. Income tax return (auditor must identify the type of income tax return examined).
- D. Verified by the Secretary of State.
- E. Other documentation in accordance with State audit procedures.

3. **Identification of Records Examined.**

Audit Report should identify the records that were requested, available and examined.

- A. If the employer was sent a pre-audit letter which requested specific documents, the letter may document what records are requested.
- B. If the cash disbursement records are requested, but not available or are available but not examined, an explanation is necessary.
- C. If the 1099's are available but not examined, an explanation is necessary.

4. **Name and telephone number of the employer and/or a designated representative with whom the purpose of the audit was discussed prior to the audit.**

Audit report should record one of the following:

- A. If the employer is involved in discussion, record name and title.
- B. If the employer designated a representative, record the name and title of the employer who designated the representative and also record the name and title of the designated representative.

5. **Name and telephone number of the employer and/or designated representative with whom a closeout meeting was held.**

Audit Report should record the following:

- A. If the same information is included in the previous question, the work paper(s) could refer to that specific question as "same as question # X".

- B. If another partner or corporate officer other than identified in the pre-audit meeting is involved in the closeout meeting, record name and title.
- C. If another partner or corporate officer other than identified in the pre-audit meeting has selected a designated the representative to attend the closeout meeting, the auditor should record the name and title of the employer who designated the representative and also record the name and title of the designated representative.

6. What employer records other than payroll were examined for hidden wages.

- A. The documentation to show the search for hidden wages is shown in section IV of this document.

7. What reason was given for the number of quarters audited (if more or less than four quarters.)

Audit report should record the following:

- A. If less than four quarters a reason needs to be given.

8. That necessary adjustment forms were completed with the audit.

Audit report should record the following:

- A. If prepared manually, a copy of the adjustment forms should be included in the completed audit file.
- B. If computer assisted, a printout of the adjustments should be included in the completed audit file.

9. That all monies due were collected, and if not an explanation provided.

Audit report should record the following:

- A. If the auditor collected the balance due and the transaction is recorded in the audit, no additional documentation is necessary.
- B. If the auditor does not collect the balance due an explanation as to why not should be documented.