REVENUE QUALITY CONTROL

Issues and Answers

The following represents the types of program-specific questions and concerns received from States and Regions. Answers are also provided.

CORE RQC.

1. Issue: Reference is made to a National Office (NO) RQC telephone number to call for questions. Does the NO plan to establish a hotline for questions?

> Answer: There is no current plan to have a hotline for general tax program review questions. States should contact their Regional Office (RO) for assistance. If necessary the ROs will contact NO RQC staff. The same hotline (1-800-473-0188) used for BQC will be available for ADP revenue related questions.

2. Issue: Failure of a whole sample due to one error in forty six cases is not realistic and should be reconsidered.

> Answer: A new interim rule has been established: All acceptance samples are to be 60 cases with two or fewer exceptions being acceptable. This rule centers around a five percent error rate as acceptable. This interim rule will be reviewed in the light of experience gained through voluntary implementation. It is believed that underlying error rates are significantly less than the implicit five percent rule allows.

STATUS.

1. Issue: Acceptance samples are required to be drawn and reviews conducted within specified time periods. More flexibility should be allowed.

> Answer: The reviewer can change any specified time period, with Regional Office approval. Time tracks may be needed to coordinate review with timely completion of the RQC Annual Report.

2. <u>Issue</u>:  In the New Acceptance Sample, should question #15 be #12 or are questions # 12-14 missing?

> Answer:  Question #15 was misnumbered.  Numerical order has been corrected in the revised handbook.

3. <u>Issue</u>:  A Question reads "* In the opinion of the supervisor or manager, does the training meet the needs of the Status function?"  This information is not reflected in any reports and the answers could bias the Reviewer's answer to valuative questions.

> Answer:  The question is informational (as noted by the *). The intent is to obtain the supervisor's opinion as to adequacy of the training (e.g., resources available to provide effective training in the function being assessed). This may aid the reviewer in determining areas of weaknesses in the tax operation.

<u>CASHIERING</u>.

1. <u>Issue</u>:   RQC asks if remittances are processed in a secure area.  In the case of a lock box State, the bank may consider the area secure, RQC reviewer may not agree.  What constitutes a secure area?

> Answer:  Consideration will be given to all options regarding security.  Expansion of what constitutes a secure area may come out of the voluntary implementation cycle.

2. <u>Issue</u>:  Need to clarify why one failure in a sample of 115 indicates that the reasonable assurance is absent.  This [same] rule applies to a sample of 46.

> Answer:  The issue has been resolved.  The sample size and scoring  criteria have been completely revised.

3. <u>Issue</u>:  The instructions for Cashiering reference using the sample assembled by Quality Appraisal (QA) staff.  It was our understanding that the tax portion of QA would be replaced by RQC activity.

> <u>Answer</u>:  New instructions will be provided when the Cash Management group has finalized their new criteria and QA is officially replaced by RQC (sometime in 1995).

## REPORT DELINQUENCY

1. _Issue_: Need to add another measure consisting of ratio of delinquent reports secured with payment to delinquent reports secured without payment. The purpose being to emphasize that it is equally important to collect the tax as it is to secure the report.

> _Answer_: The Computed Measures in Report Delinquency deal with effectiveness in securing delinquent reports. Collections is another measure. Combining these two separate factors would yield information of marginal utility.

## COLLECTIONS

1. _Issue_: "Were enforcement actions taken to collect ..." needs to have N/A as a response or to be reworded. A "No" response should not be forced and thereby make the case unacceptable. If the debt has been paid in full after initial written notices, how do you answer the remaining questions?

> _Answer_: The concern appears to be -- What if there is no collection action because the money due was paid before routine collection action was triggered. The universe requires accounts to be at least 30 days old, therefore, some action should have been taken and the balance of the questions would be answered.

## ACCOUNT MAINTENANCE

1. _Issue_: Regarding the issuance of credit memorandums -- a "N/A" option should be added for those SESAs who do not issue credit memorandums.

> _Answer_: If a State has a general policy of not issuing credit memos, then the reviewer should make that position known to the Regional Office and request that the question be removed altogether.

2. _Issue_: Adjustments to contribution reports affect rate computations and should be reviewed as well as original contribution reports.

> _Answer_: Consideration of adjustments has been included in the criteria. They are also addressed in the field audit sample.

3. <u>Issue</u>. What if State only bills reimbursing employers once a year, rather than quarterly?

    Answer. Acceptance Sample instructions have been amended to accommodate this billing arrangement.

4. <u>Issue</u>. Consider adding INA to the question on the benefit charging decision as it relates to maintaining "source" documentation.

    Answer. It is essential that documentation be maintained. The question has been reworded to eliminate the term "source."

5. <u>Issue</u>. System Review question "Does the SESA issue Refunds to employers? " should have a N/A for SESAs who do not issue refunds.

    Answer. Whether or not to issue refunds is a policy matter, however, a State cannot refuse to issue refunds. If issued only upon request of the employer the answer would be yes.


## FIELD AUDIT

1. <u>Issue</u>: Several States raised questions on the effect of requiring details of audit execution ... "the additional documentation will take away from the time allowed for audits, and will not increase revenue." ... "the proposed documentation is excessive and not cost effective." ... " documentation requirements will outweigh cost effectiveness in the UC Field Audit Program." ... " time required and an increase in paper documentation when States are switching to computerized audits."

    Answer: It will increase time required if the State is not performing quality audits. Thorough and complete audits address compliance issues and guide the direction of future audits. Documentation puts all States on an equal level for measuring effectiveness of audits and provides verifiable quality standards in accordance with Generally Accepted Auditing Standards. Also, the audit penetration DLA has been modified from 4% to 2%, specifically to accommodate the additional detail required.

2. <u>Issue</u>: Can examples of work papers be developed for States who are interested in looking at them?

    Answer: An example of a field audit report layout is being developed by the National Office and will be distributed to all SESAs for consideration. Also, the Unemployment Compensation Auditor Training (UCAT) program, recently distributed to the States contains sample work papers. Sample work papers may give reviewers an overview of audit functions but should not be relied upon for measuring

performance. They are designed primarily to guide an auditor and will be significantly modified to meet individual State preferences and procedures.

3. Issue: When will the RQC audit requirements start and how should 92-93 be evaluated? Can the documentation requirements be suspended during the test period?

Answer: The revised RQC and ESM audit standards are effective now. However, they will not be officially assessed using RQC requirements until RQC becomes mandatory (1995). Even then, calendar year 1995 has to end before the sample field audits are selected and examined.

If the SESA begins voluntary implementation in 1993, samples of field audits completed CY 1993 will be examined January or February 1994. The "unofficial" RQC Annual report for CY 1993 should be produced spring 1994 and will allow State administrators ample time to make program improvements during CY 1994.

The new field audit requirements must be well in place in 1994 - since audits assigned in late 1994 will be completed in 1995, and will be entered into the RQC "universe" of field audits. Upon completion of CY 1995, a sample of audits will be selected from CY 1995 and evaluated officially against the RQC/ESM standards.

(Note that only status determinations and field audits are drawn from an entire year. The rest of the RQC samples are drawn from specified quarters.)

4. Issue: What consideration can we expect for audits completed where records are minimal or non-existent? If an employer does not keep records, the field auditor can't provide documentation adequate for RQC.

Answer: Where records are lacking, RQC (and GAAS) only asks for documentation on what is available, and the how and why of results obtained when the required records to be examined are not kept by the employer. This will not cause an RQC case to fail.

5. Issue: Some States wanted the word "written" authorization eliminated from designated representative. Some suggested the "written" be retained for legal protection of the auditor and the responsible person determination.

Answer: The term "written" has been eliminated as part of the authorization requirement for RQC documentation. This does not mean that the SESA could not require that such authorization be written.

6.  Issue:  Telephone numbers should be eliminated from the opening and closing interviews.

    Answer:    The telephone number requirement in the initial interview situation was deleted.  It was determined that telephone number of the person with whom the auditor closed the audit was crucial.  However, it is recognized that a closeout interview is not always possible; and if that is the case, and this fact is documented, the lack of a phone number would not be counted against the audit.

7.  Issue:  Question 4, tests of employer's payroll records. Several States objected to the most basic test of tracing at least one employee's wages from source documents through to what was reported on the UI contribution report.  Some felt that a better method entailed: 1) the addition of all the individual gross wages from a source document for the quarter and  2) comparison to the gross wages reported.

    Answer:  This was discussed at a meeting with the Office of Inspector General and added as an option for question 4.

8.  Issue:  In the tests of employer payrolls, one State recommended that the total taxable payroll be changed to total excess wages and then backing into taxable wages through subtraction from total subject wages.

    Answer:  Either method can be used in calculating the total taxable payroll as long as a proper calculation and a comparison are made.  The suggested method, however, requires extra steps and is more difficult to follow.

9.  Issue:  Question 5, misclassified workers and/or hidden wages.  There were several suggested changes in the tests, mainly that tests be consolidated or made progressive, e.g., "Do Test 1, then test 2 only if nothing found in test 1."  "Tests 3 and 4 are needed only if nothing found in tests 1 or 2."  "Tests 2 & 3 could be combined and test 4 eliminated."  Some States wanted to omit listing non-suspect payments.  One State suggested that the following sentence be added, "It may not be necessary, in all cases, to examine all of the records listed when the desired information is all discovered in one or more of the RQC-suggested sources."

    Answer:  The RQC Work Group in concert with the Office of Inspector General has concluded that all of the tests are necessary.  Each test stands on its own - something new could be found in any one of these particular tests that was not found in any of the others.  It was also determined that non-suspect payments should not have to be listed individually, but categories should be identified and documented.  The RQC Handbook has been changed to reflect this.