**APPENDIX D**

**EXAMPLE OF ANNUAL REPORT**

**ET HANDBOOK NO. 407**

**TAX PERFORMANCE SYSTEM**

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**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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**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

Explain which tax functions

major tax functions using the following methodologies:

were reviewed and the

methodologies used

!

**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 thatcontrols 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

Indicate whether Acceptance

Sample passed or failed the

review

Identify strengths and

weaknesses

If no risk was found, say so

**FINDINGS AND CONCLUSIONS**

Status

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

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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If problems were found,

say so

however...

point out any actions being

taken to remedy problem areas

Identify areas of strength

If an inconsistency exists

between Systems Review and

Sampling, explain it

Field Audit

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%

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.

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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Many times, the State's own

tax staff will have the best

solutions

At times, the ADP staff may

have to be involved

Don't overlook simple

solutions

If problems are identified that

fall outside the scope of TPS's

review - still bring it to the

State administrator's attention

**RECOMMENDATIONS (cont.)**

Field Audit

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)

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

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:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Systems Review Verified Controls for:

Acceptance Sample

Confirmed:

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?

**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

Computed Measures calculations and

Measures

layouts

(under development)

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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)

**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

established

from the last day of the quarter in which the

account first became liable:

1993 1994 1995

80.3%

Percent of Status Determinations of newly

1.

accounts made within 90 days

81.2%

80.6%

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If the unit is strong in an area,

say so

Attempt to identify and

evaluate any trends

Computed Measures Findings (cont.)

Indicator

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%

Indicator

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

Indicator

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

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.

Percent of Status Determination of newly estab­

2.

99.3%

98.7%

Percent of Status Determinations of Successor

3.

89.3%

87.3%

Percent of Status Determinations of Successor

4.

99.7%

99.7%

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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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Explain any inconsistency

between Systems Review and

Acceptance Sample findings

When recommending

improvements, explain the

material effect the risk has

on the tax system

It is suggested that recom­

mendation are developed

with input from State tax

staff and Regional staff

Program Review Findings: (cont.)

!

Review of Completed Work - No systematic review of Successor

Determinations is currently being conducted.

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.

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).

!

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 Determina­

tions 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.

State may be experiencing some problems in managing the

Accounts Receivable.

Computed Measures Findings:

Indicator 1.

was as follows:

1993

1994

1995

Contr

Reimb

Indicator 2.

and declared uncollectible compared to tax due)

for the past three years was:

1993

1994

1995

Contr.

Reimb.

Indicator 3.

as follows:

1993

1994

1995

Contr.

Reimb.

The Computed Measures, however, indicated that the

The percent of employers making timely payments

91.1%

91.0%

90.6%

98.4%

98.3%

98.1%

The turnover ratio (ratio of receivables liquidated

1.3%

1.3%

1.4%

1.6%

0.6%

1.7%

The percent of tax due declared uncollectible was

0.6%

0.8

0.5%

0.5%

0.1%

0.2%

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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.

1993

1994

1995

1.6%

Indicator 2.

1993

1994

1995

4.3%

Indicator 3.

1993

1994

1995

1.2%

Percent of change in total wages resulting from audits:

14.3%

11.6%

Percent of contributory employers that are audited:

2.8%

2.6%

The percent of total wages audited:

4.0%

2.0%

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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 target­

ing of employers for audit using the State's modified IRS 1099 informa­

tion 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.

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

Cite specifically why each case

cases failed due to inadequate documentation regarding a search for

failed.

misclassified employees and hidden wages.

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If improvements have been

made, say so.

If other States have successful

procedures in place, consider

noting them as recommenda­

tions.

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.

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Explain any inconsistencies

Show the problem's impact on

the tax operation

**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.

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.

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Describe the effect of the

problem area

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.

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.

**D - 23**

**R 12/00**