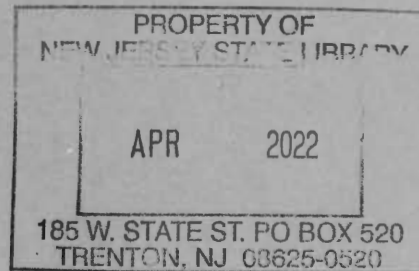


REPORT TO THE HONORABLE JAMES R. ZAZZALI
ATTORNEY GENERAL OF THE STATE OF NEW JERSEY

REVIEW AND ANALYSIS OF THE EMPLOYER
TAX COLLECTION SYSTEM FOR THE NEW
JERSEY UNEMPLOYMENT COMPENSATION
FUND, THE UNEMPLOYMENT COMPENSATION
AUXILIARY FUND AND THE STATE
DISABILITY BENEFIT FUND



BY:

DEPARTMENT OF LAW AND PUBLIC SAFETY
NEW JERSEY DIVISION OF CRIMINAL JUSTICE
PROGRAM INTEGRITY SECTION

EDWIN H. STIER, DIRECTOR

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State of New Jersey

DEPARTMENT OF LAW AND PUBLIC SAFETY

DIVISION OF CRIMINAL JUSTICE

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EDWIN H. STIER
DIRECTOR

November 19, 1981

Honorable John J. Horn
Commissioner
Department of Labor and Industry
John Fitch Plaza
Trenton, New Jersey 08625

Dear Commissioner:

I want to thank you and the members of your staff for the courtesy extended during our exit conference concerning this Division's Report entitled "Review and Analysis of the Employer Tax Collection System for the New Jersey Unemployment Compensation Fund, the Unemployment Compensation Auxiliary Fund and the State Disability Benefit Fund."

This correspondence will serve as the addendum to the final report which was discussed at the meeting. Comments by the Department of Labor and Industry to particular sections of the report are listed. Other changes discussed and agreed to at the meeting have been incorporated in the report.

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Commissioner John J. Horn
Page 2

Prior to listing the comments to specific sections of the report, I want to re-emphasize the purpose and perspective of the report. The purpose of the report was to study the tax collection mechanisms for the Unemployment and Disability Insurance Funds. That review was undertaken in light of the direction given by the Attorney General to study the problem of the alleged missing jobless funds. The report is not an audit of the Fund nor was that ever an objective of the study. Accordingly, based on the information gathered, the report cannot state that fraud is not present. What can be stated, based on the report, is that implementation of the specific recommendations in the report will minimize the opportunities for both internal and external fraud and maximize the collection of delinquent taxes and tax reports.

The following items are comments that you and your staff want included in the report:

Page 20, Section 1.5

This section should note the limited resources available to support the Attorney General's Economic Crime Section. This necessarily restricts the number of cases we can send to them. Additionally, it is extremely difficult and complicated to get a case to the point where there can be a criminal prosecution and once there is, it is not always very productive because the fines are not very high.

Page 22, Section 1.9

We would like to clarify that "immediate billing" is the product of the automatic processing and audit of the regular quarterly contribution report form. The system provides for the preparation of a billing for underpayment of tax as well as the interest and penalty for late filing. We do not have the capacity to automatically capture any other outstanding liability for inclusion on this bill. However, we can now prepare a second billing which will include all of the outstanding liabilities plus interest as well as any liability in the current quarter which is still outstanding in the account. We are currently forwarding this second "follow-up" bill within 30 days after the "immediate billing" for the current quarter.

Page 23, Section 1.10

This section indicates that bills over \$1500 remain for review up to several weeks. This time frame is not accurate for the majority of our bills normally remain only for a few days to review the installment arrangements. Prior to cycle billing, which was instituted in June 1980, we did experience delays that could have amounted to several weeks.

Page 26, Section 1.15(H)

This finding presents a condition which no longer exists since we began to use the automatically prepared "cycle bill". This computer-prepared bill has been in use since February 1981. Our current cycle is approximately 6 months. All accounts have been billed at least once since February, and we are now in our second cycle since February.

Page 27, Section 1.16(E)

As of February of this year, we are generating subsequent billings that reflect the entire amount due; therefore, this recommendation does not appear necessary.

Page 34, Section 2.10(E)

The use of one source document to establish and also eliminate the receivable has proven to be a positive cost effective procedure and, therefore, it may not be appropriate to consider it a deficiency.

Page 41, Section 4.4

We would like to clarify that the 7,000 reports is only a small percentage of our total. The 7,000 reports, which were still delinquent at the end of the quarter and reviewed by the auditors, represent approximately 4% of the total reports due. The federal standard for this function requires only 95% of all reports due must be received by the end of the quarter. New Jersey consistently meets this federal standard.

Page 45, Section 4.15

Checks of corporate status have not been stopped. However, because of limited services from the Office of the Secretary of State, which limits these verifications to ten per day, a lien is entered against the corporation pending receipt of the information. The lien is then amended, if necessary, to include officers of defranchised corporations.

Page 46, Section 4.18

We do not have the capacity to include all bankruptcy information on each account. However, the status of the account is amended to indicate the inactivity and the receiver's name and address is entered for all future correspondence. In addition, the accounting file is notated with an indicator #122, which advises that proof of claim has been filed with the bankruptcy. The exclusion of these items for separate listing in the accounts receivable summary must be done by exception. The current program cannot automatically perform this segregation.

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Page 50, Section 4.26(F)

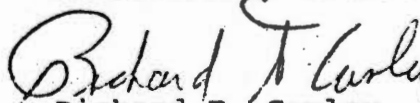
While there is not direct access via a computer screen, information is available in the computer concerning judgement file, bankrupt employers and uncollectables and used by the unit.

Page 53, Section 5.2(C)

This description indicates we accept information from the employer at face value. This is correct and is a common practice of unemployment insurance in all states. Resources prohibit any other approach.

By this letter I am forwarding copies of this final report to members of the Program Integrity Oversight Committee.

Respectfully yours,


Richard T. Carley, Chief
Program Integrity Section

/dlm

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ORGANIZATION OF THE REPORT

This Report is organized in three parts.

Part I, The Introduction, outlines the tasks undertaken, the reason the task was undertaken, a brief statement of the results of the review, and the methodology employed in the review.

Part II, Major Recommendations, specifies suggested remedies drawn from an overall review of the tax collection effort.

Part III, Discussion, Major Findings, and Recommendations, details the review of particular operations involved in the tax collection effort, identifies problems and makes recommendations, all with respect to those operations.

PART I

PART I
INTRODUCTION

In July 1981 the Division of State Auditing, Office of Legislative Services, completed and issued audits of three funds administered by New Jersey Department of Labor and Industry:

- 1) The Unemployment Compensation Tax Fund.
- 2) The State Disability Benefits Fund. ,
- 3) The Unemployment Compensation Auxiliary Fund.

Those audit reports received widespread public attention. The most significant aspect of the audit reports concerned the fact that the auditors declined to express an opinion as to the accuracy of the Fund's accounting records. Public media accounts alleged that one hundred million dollars in unemployment revenues was unaccounted for..

The audit reports were referred to the Division of Criminal Justice by Attorney General James R. Zazzali and were thereafter assigned to the Program Integrity Section. The Section was directed to determine what action should be taken with respect to the allegations and review the available information.

In fulfillment of the responsibility to determine what should be done about lost jobless funds, a complete review of the collection methods for the Fund's resources was undertaken. That approach was necessary in order to

independently obtain source information and detail on the reported missing funds. Initial inquiry revealed that the alleged missing funds were uncollected tax liabilities cumulated since the Fund's inception. The cumulation of those funds over a forty year time period indicated a significant failure to comply with generally accepted accounting principles and sound management principles. Accordingly, in order to recommend remedial action with respect to maximizing fund protection and minimizing the loss of fund resources, a thorough review of the tax collection effort presently in place was undertaken.

The review conducted discovered a system of inadequate internal control and inefficient tax collection methods which can create the opportunity for criminal activity and which may create an inability to detect that unlawful activity. This report deals with specific areas where deficiencies were found and the recommendations deal with ways to enhance the system so that adequate internal control is implemented and sound tax collection methods used. The result will be improved integrity of the Unemployment Compensation Fund. This review and analysis has disclosed internal deficiencies which are severe enough in nature to warrant the Department of Labor and Industry's immediate attention in resolving them. This will insure the integrity of the tax funds.

BACKGROUND

Eight hundred million dollars per year is collected by the Department of Labor and Industry as contributions to the Unemployment and Disability Insurance Funds.

The New Jersey Unemployment Compensation Fund was authorized by N.J.S.A. 43:21-1 et seq. in 1936. The State public policy is declared in N.J.S.A. 43:21-2 as follows:

"...economic insecurity due to unemployment is a serious menace to the health, morals, and welfare of the people of this state. Involuntary unemployment is therefore a subject of general interest and concern which requires appropriate action by the legislature... This [protection] can be provided by encouraging employers to provide more stable employment and by systematic accumulation of funds during periods of employment to provide benefits for periods of unemployment, thus maintaining purchasing power and limiting the serious social consequences of poor relief assistance. The legislature, therefore, declares that in its considered judgment the public good...requires...the compulsory setting aside of unemployment reserves to be used for the benefit of persons unemployed after qualifying periods of employment."

The Unemployment Compensation Fund receives employer and employee contributions, Federal revenue and investment income. The Fund finances the Unemployment Program.

The State Disability Benefits Fund was established in 1948 and derives its authorization from N.J.S.A. 43:21-25 et seq., "The Temporary Disability Benefits Law", N.J.S.A. 43:21-26 provides in pertinent part:

"...It is desirable and necessary to fill the gap in existing provisions for protection against the loss of earnings caused by involuntary unemployment, by extending such protection to meet the hazard of earnings loss due to inability to work caused by non-occupational sickness or accident."

The Disability Benefits Fund collects employee and employer contributions, fines and penalties, investment earnings and special assessment to employers. The Fund pays disability benefits not covered by the Workmen's Compensation Law. Administrative expenses for the Program are borne by the Fund.

The Unemployment Compensation Auxiliary Fund derives its resources from penalties and interest assessed and collected from the Disability Benefits Fund and the Unemployment Compensation Fund. Interest and penalties assessed against employers who have either failed to file quarterly tax reports or who have not made timely contribution payments are maintained by this Fund. Additional revenues are derived from investment earning. Programs which increase employment opportunities in the State are financed through the Fund.

AREAS REVIEWED

The scope of review for this report has been limited to those areas whose primary responsibility is establishing, monitoring, collecting and updating employer tax accounts. That area was identified as the Division of Unemployment and Disability Insurance, a Division within the Department of Labor and Industry.

The Division of Unemployment and Disability Insurance administers the described Funds. Therein, the Bureau of Contributors Services has primary collection responsibility. The Bureau consists of five sections:

- 1) Collection Section
- 2) Contribution Section
- 3) File Section
- 4) Legal Processing Section
- 5) Office Audits Section

The Division also has a Bureau of Field and Audit Services which is also involved in the tax collection effort. In particular, the Status Section within the Bureau of Audit and Field Services assist in the tax collection effort. Finally, the Electronic Data Processing Section provides a support function to the tax collection effort.

APPROACH

The approach of the review was structured into the following steps:

Step I: Assess and define criteria for adequate internal control and sound tax collection methods.

Step II: Management review of all relevant functional areas. This review included:

A) Interviews of management personnel and employees within the Division of Unemployment Insurance.

B) Observations of the day-to-day operations within the sections.

C) Review of the Division of State Auditor's report for:

1) Unemployment Compensation Fund:

July 1, 1978 to June 30, 1979

2) State Disability Benefit Fund

and Unemployment Auxiliary Fund:

July 1, 1978 to June 30, 1979

3) Unemployment Compensation Tax Fund,

State Disability Benefits Fund and

Unemployment Compensation Auxiliary

Fund: July 1, 1974 to June 30, 1975

D) Meetings with the audit team from the Division of State Auditing.

E) Meetings with the accounting firm of Touche Ross and Company personnel and a review of their report to Labor and Industry.

F) Meetings with the United States Department of Labor Audit Agency.

G) Interviews with personnel from the Cash Control Section, Department of the Treasury.

Step III: Identify deficiencies and make recommendations that fall within the framework developed within Step I. The various State employees interviewed were open in discussing their section's functions and often suggested improvements.

A system of accountability which lacks sufficient internal controls cannot check the accuracy or reliability of its accounting data and more precisely cannot bring about accurate and suitable recording in summarization of authorized financial transactions. A system lacking sufficient internal control creates an environment for loss, fraud and political corruption.

A formal definition of internal control was originally published by the accounting profession in 1949 and repeated in subsequent publications. The most comprehensive definition was published in "Statement on Auditing Standards (SAS) No. 1." Paragraph 320.09 states:

"Internal control comprises of the plan of organization and all the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies... A system of internal control extends beyond those matters which relate directly to the functions of the accounting and financial departments."

Four parts of internal control are further defined by
SAS No. 1 in paragraph 320.28 as:

"...the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that:

a) transactions are executed in accordance with management's general or specific authorization.

b) transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability for assets.

c) access to assets is permitted only in accordance with management's authority.

d) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences."

PART II

PART II

MAJOR RECOMMENDATIONS

The following major recommendations are drawn from a review and analysis of the tax collection system. Implementation of these recommendations will improve the efficiency and integrity of the tax collection effort.

RECOMMENDATION

COMBINE THE DELINQUENCY UNIT OF THE LEGAL
PROCESSING SECTION WITH THE COLLECTION
SECTION

The collection of outstanding tax reports and tax liabilities is not handled in an organized, concerted and effective manner. The Delinquency Unit of the Legal Processing Section and the Collection Section are simultaneously performing identical efforts to collect outstanding tax reports and tax liabilities, respectively. The Delinquency Unit extensively uses telephone contact, correspondence and subpoenas to obtain delinquent quarterly tax reports. The Collection Section uses the same methods to obtain outstanding tax liabilities.

Employees in each function are unaware of noncompliance by an employer with respect to the other unit's responsibilities. As a result, employers are contacted by an employee from the Division of Unemployment and Disability Insurance who cannot effectively deal with all aspects of that employer's tax account. Observation revealed that employees told employers that they could not deal with any outstanding liability, but were only concerned with collecting a delinquent tax report. That employer could also be receiving contact from employees of the Collection Unit who would then only deal with an outstanding tax liability.

By combining the functions and assuring that any one employee can answer all tax related questions, problem accounts will be more expeditiously identified and targeted for resolution. When appropriate, liens and judgments can be used to secure the State's interest in a more timely fashion.

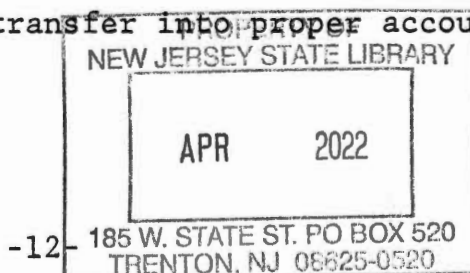
Combining the two functions will alleviate the current duplication of effort and lack of coordination.

RECOMMENDATION

INSTITUTE A DIRECT DEPOSIT SYSTEM FOR EMPLOYER TAX PAYMENTS TO IMPROVE AND INSURE ADEQUATE INTERNAL CONTROL AND TIMELY DEPOSIT

Presently, the Contribution Section has inadequate control over the receipt of employer tax payments. Current procedure does not insure that all checks received are deposited. Unendorsed employer tax payment checks are stored both within the Contribution Section and various other locations within the Division of Unemployment and Disability Insurance subjecting them to unauthorized access and to potential theft and destruction.

Many service oriented industries and various Federal agencies use a direct deposit system for receiving cash. Regionalized post office boxes under a designated bank's control would be used to receive the tax reports and payment checks. The bank would automatically negotiate and deposit the checks to the State's designated account, while simultaneously creating an input tape of cash receipts by employer account number for all transactions. The tape can then be utilized by the Department of Labor and Industry in order to place credit balances in all identified employer accounts and to place unidentified payments into an omnibus account. The omnibus account would then be printed out for audit adjustment and ultimate transfer into proper accounts.



The Electronic Data Processing Section can then input and compare tax report information against payment data, calculate and perform the proper allocations, bill employers for shortages and produce exception reports. These reports would be routed to the proper section for appropriate corrective action. Upon reconciliation, the Cash Control Section would inform the bank of the proper distribution of the suspense account.

The implementation of a direct deposit system would relieve the Department of Labor and Industry of handling large amounts of cash, improve the integrity in handling cash received, enhance the integrity of the accounting for cash receipts and update the employer account history on a timely basis.

RECOMMENDATION

DEVELOP WRITTEN GUIDELINES AND PROCEDURE
MANUALS THAT WOULD LIMIT THE DISCRETION OF
INDIVIDUAL EMPLOYEES AND ESTABLISH PROCEDURES
AND TIMETABLES FOR THE IMPLEMENTATION OF
SPECIFIED COLLECTION PROCEDURES

Presently, no written guidelines or criteria exist for the collection of delinquent tax liabilities and reports. Individual employees involved in the collection effort exercise discretion in the use of available collection tools. There are no timetables for the accomplishment of specific collection efforts. The lack of a timetable hinders

the use of legal process as an effective collection tool and delays identification of cases that should be referred for criminal prosecution.

Written guidelines and criteria will advance cases through the collection process in an orderly fashion, avoid repetitious contact with delinquent employers and result in more expeditious disposition of cases.

RECOMMENDATION

IMPLEMENT A COMPUTERIZED BILLING PROCESS THAT WOULD ALWAYS BILL THE ENTIRE AMOUNT OWED BY THE EMPLOYER

The accounts receivable summary does not reflect interest and penalty charged an employer even though they are regularly billed for the entire amount. This results in an understatement of the accounts receivable summary.

The two billing systems currently in use are in conflict with each other since "immediate billings" only bill for a single quarter's liability while the "cycle billings" bill for an employer's entire liability, including interest and penalty. An additional problem arises when an employer pays his immediate bill and is billed a second time for the interest that has accumulated but has not been reflected on prior billings.

By establishing uniform billings which will reflect total amounts due, the accounts receivable summary will be accurate and redundant billings will be eliminated.

RECOMMENDATION

DEVELOP A TIMETABLE TO INSURE THE EFFECTIVE MANAGEMENT OF DELINQUENT TAX CASES

Presently, no case management standards exist to govern the movement of delinquent employer tax cases from inception to final resolution. Advancement of a case is dependent on employee discretion. Redundant methods are used to collect continuously outstanding liabilities. Referral of cases on employers who fail to file quarterly tax reports for arbitrary assessment may be considerably delayed or in some instances take years.

Failure to meet a deadline for filing a tax report should automatically result in referral for assessment. Deadlines for collecting outstanding liabilities will move cases to judgment and securing of the liability.

By implementing a comprehensive timetable for collection, obligations will be secured by judgment more expeditiously, problem accounts requiring special attention will be identified, and cases will be handled in a consistent manner.

RECOMMENDATION

USE THE EDP SYSTEM TO EFFECTIVELY MANAGE
CASES AND REPORT CURRENT EMPLOYER ACCOUNT
HISTORIES SO THAT THE DIVISION OF
UNEMPLOYMENT AND DISABILITY INSURANCE HAS
IMMEDIATE ON-LINE ACCESS TO THE INFORMATION

Currently, employees involved in the collection of tax reports and tax liability have immediate on-line access to status information. Status information includes the employer's account number, name, address and other descriptive data, but does not contain employer payment and liability history. Employees must manually request account statements from the Electronic Data Processing System in order to forward the collection effort. The effective use of the telephone contact as a collection tool requires employees to have immediate access to both an employer's status and accounting history.

Alphabetic retrieval of employer information stored in the computer is not currently possible. Eighteen employees maintain a manual rolodex file system in order to provide alphabetic information retrieval. All of this information can be automated and the manual system eliminated. Further, computerization of this information will allow employees to retrieve information through both numeric and alphabetic input.

Computerized storage of all collection action against an employer would allow the accurate calculation of an Accounts Receivable Summary by collection status and age since all information needed to compute the summary would be available in automated form. In addition, computerization of such information would allow automated tracking of individual cases from the inception of a liability through final resolution.

RECOMMENDATION

INTRODUCE REPORTS THAT WOULD ENABLE
MANAGEMENT TO EFFECTIVELY MONITOR,
ANALYZE AND DIRECT THE TAX COLLECTION
EFFORTS

The sections operate autonomously with insufficient overall management coordination. Management summary reports which would provide a timely, accurate summarization of collection efforts are not generated. There is no accurate reporting of the results of collection methods employed. Consequently, collection tools have not been evaluated as to their effectiveness. Currently, there is only one annual aging of accounts based on information that is three months old when the report is produced; the report is the basis of account aging analysis for the year.

Current accurate information will provide management with the ability to effectively integrate the various sections into a unified collection effort.

RECOMMENDATION

ESTABLISH THE FUNCTION OF CONTROLLER FOR THE DEPARTMENT OF LABOR AND INDUSTRY

This recommendation was proposed in the Touche Ross and Company Report, dated September 1, 1981 and should be implemented.

Presently, employees of the Division of , Unemployment and Disability Insurance, Bureau of Contributor's Services, receive insufficient unified overall management direction of the type that could be provided by a controller's function. Those involved in the tax collection effort are not getting useful management reports. A controller would centralize and implement a management reporting system.

The controller's function should be a line position staffed by someone with a strong financial and management background, such as a Certified Public Accountant and/or an individual possessing a Masters of Business Administration, and who is familiar with electronic data processing interaction.

PART III

CHAPTER ONE
THE COLLECTION SECTION

1.1 The Collection Section is a defined, segregated operation in the Division of Unemployment Compensation and Disability Insurance and is part of the Bureau of Contributor's Service in that Division. The Section is responsible for the collection of delinquent employer tax accounts.

1.2 The Collection Section is divided into four units or functions:

1) The Cycle Billing Unit - is responsible for periodic billing of the total liability of each active delinquent employer tax account.

2) The Correspondence Unit - is responsible for handling incoming mail and responding to employer inquiries when such inquiries pertain to the business of the Collection Section. The unit performs a primarily technical function. Transmittal of information for Certificates of Debt and similar legal action are referred by the unit to the appropriate section.

3) The Negotiations Unit - is responsible for employing the basic, initial collection tools employed for delinquent employer tax accounts. Those tools include attempts to telephonically contact employers, correspondence to employers, and subpoenas directed to the employer. The unit relies on computer generated "immediate billings" (discussed hereafter). The unit has authority to authorize installment payment of tax liabilities when contact with an employer is successful.

4. The Service Unit maintains the Section's files.

1.3 Our review of the section revealed that the collection techniques used were not being applied in a rational, uniform and consistent basis. This can result in two employers who owe identical amounts to the funds being treated differently by the section. The section does not have established written criteria for what collection tools should be used for given delinquency profiles. Individual collection personnel determine what collection methods they will use, because no procedural manual exists for the section.

1.4 Currently there is no established consistent criteria for when the section should institute legal action to establish liens against delinquent employers' assets. The determination to file a lien is made based upon individual collection experience which varies from employee to employee.

1.5 The Collection Section also refers cases to the Economic Crime Section of the New Jersey Division of Criminal Justice for criminal prosecution. A review of thirty-one employers who each owed more than \$100,000 in delinquent taxes revealed that only eight were ever referred for prosecution for failure to remit contributions when due.

The referrals were not made on a consistent basis. Employers who owed as much as \$142,000 dating back to the first quarter 1971 were never referred for prosecution, however, employers who owed significantly less for quarters as recent as 1979 were.

1.6 The Section maintains a completely manual file for the employers who owe more than \$5,000 in outstanding taxes, identified as a "super high liability file" and is supposed to closely monitor the account's activity. Although interviews with the section's personnel disclosed that the mechanism effectively identifies high liability cases, the cases are not necessarily satisfactorily resolved any more expeditiously.

1.7 The Section does not know the current age of all the accounts for which it is responsible. This makes it impossible to direct maximum collection effort on the newest delinquent accounts. A computer run of delinquent accounts by age is generated only once per year. In addition, the run uses information that is more than three months old. Our review disclosed that the Collection Section is currently using a run dated April 1981 which was compiled from January 1981 information. Interviews with the Collection Section personnel revealed that the run is an ineffective tool because much of the information is outdated and incorrect.



1.8 The Section has one CRT which only provides on-line numeric access to employer information (the employer's account number must be used to retrieve information). Employer account history must be manually requested from off-line computer files. This request takes one to two days to process. The manual system causes the Correspondence Unit and the Negotiation Unit to become ineffective since they cannot answer employer questions with immediate accurate information.

1.9 Computer generated "immediate billings" only include account statements for the current quarter. As a result, chronic delinquent employers receive billings for less than they actually owe. This can cause confusion for the employer because he will also receive bills from the Cycle Billing Unit every six to nine months for the total amount due. The procedures hamper an effective collection effort by giving the employer the impression that the Unemployment Compensation Fund lacks a unified data collection and verification system with effective identification and monitoring of delinquent accounts.

1.10 The immediate billings are subdivided into two categories - those under \$1,500 and those above \$1,500. Billings less than \$1,500 are mailed immediately. However, bills above \$1,500 must first be reviewed by the Collection Section. Our review indicated that the bills remain in the

section for up to several weeks before an employer contact is made or the bill is mailed. This unnecessary delay causes an already difficult collection to become that much more difficult.

1.11 As part of the review, the Program Integrity Section requested the Department of Labor and Industry to produce a listing of every employer who owes more than \$5,000 in delinquent taxes to the Funds. An additional stipulation was that the employer have no civil or criminal proceedings against him by the Division of Unemployment Compensation. However, the completed run did not distinguish between "regular accounts" and "Certificate of Debt accounts."

1.12 The following information was obtained from this run:

	<u>Total # of Employers</u>	<u>Total \$ Amount</u>
A) Total delinquent employers owing more than \$5,000	4,331	\$61,396,205.49
B) Total delinquent employers owing more than \$50,000	119	10,109,048.19
C) Total delinquent employers owing more than \$100,000	31	4,332,735.55
D) Total delinquent employers owing more than \$200,000	3	813,266.07

1.13 Interviews revealed that the Unemployment Compensation Funds do not accrue interest on accounts receivable until the contributions due are paid. Once paid, the Department of Labor and Industry computes an interest receivable based upon the contributions paid from the date it became a receivable until the date paid. This procedure causes an understatement of the accounts receivable summary for the Funds. For an example, an employer who owed \$600 in contributions from September 1979 would not have interest accrued against his account until he paid his back taxes. If he would pay the \$600 as of July 1981, an interest receivable would then be computed for the period of the receivable. The interest would now appear in the accounts receivable statements. Officials in charge of the Employer Tax Sections do not consider the accrued interest on unpaid receivables as part of the entire receivable account even though the employer is billed for accrued interest in the cycle billing process.

1.14 The Program Integrity Section requested the EDP Section of the Department of Labor and Industry to compute an updated accounts receivable total as of September 1, 1981 for all "regular and Certificate of Debt accounts." The updated total submitted by EDP was 81,172 employers who owed \$92,697,786.03 in past due taxes, interest and penalty to the Funds. To this amount was added accounts in Certificate of Bankruptcy, \$1,267,540.07 and accounts deemed uncollectable, \$44,878,693.88 to arrive at a total accounts

receivable summary total of \$138,814,019.98. This amount is \$19,694,791.28 higher than the accounts receivable summary as of June 30, 1981 which was reported as \$119,119,228.70. The Employer Tax Division's supervisory personnel conceded that the understatement was a result of record keeping procedures that failed to properly accrue interest income when earned, a violation of generally accepted accounting principles for accrual methods of accounting. Proper accounting for interest income is reflected in the American Institute of Certified Public Accountants' AICPA Professional Standards. Chapter 1026.15 states:

"...Revenue from permitting others to use enterprise resources, such as interest...is also governed by the realization principle. Revenue of this type is recognized as time passes or as the resources are used."

MAJOR FINDINGS -

1.15 A) The Section does not have specific written criteria for which collection tools should be used on various accounts.

B) No procedural manual exists for the section.

C) The Collection Section is not notified of payments received by the Contribution Section.

D) No criteria exists for determining when to take civil or criminal action against an employer owing the funds.

E) The Collection Section does not know the current age of the accounts, making it impossible to direct a maximum collection effort at the Fund's current delinquencies.

F) Even though the section has a video display station (CRT) to access employer status information, it must manually request employer account history from computer files. A manual request takes one to two days to process.

G) Employers receive only one computer bill for each quarter which reflects only the current quarter's receivable. Hence, past delinquent employers are billed for only a fraction of their total liability causing conflict and confusion between employers and the State.

H) The Cycle Billing function is a manual process which bills employers for all past due amounts plus interest and penalties. This process can take six months to fourteen months to contact all past due employers.

I) Computer bills over \$1,500 are sent to the Collection Section for manual review before being mailed. This results in backlog and delays in informing an employer of his liability to the State.

RECOMMENDATIONS -

1.16 A) Develop on-line computer access of employer background information and accrued account history so that the collection effort is for the entire amount owed and the dependency on manual records is minimized. The on-line capability would allow the section to monitor any payments made by employers and continually update the total receivable.

B) Establish a standard operating procedures manual for the section. Attention should be paid to the main functions of the section and how it interrelates to other sections within the Department of Labor and Industry.

C) Establish written criteria for when to use the various collection tools at the section's disposal.

D) Establish written criteria for when the section should initiate criminal remedies against employers who have failed to remit contributions on a timely basis. Apply the criteria to all outstanding employers, initiating the criminal action against those employers that meet the criteria.

E) Program computer functions to generate immediate and subsequent billings that reflect the entire amount due by an employer on a quarter-by-quarter basis. The bill should contain sections showing the amount of the current liability, the amounts of any past due liability including penalties and accrued interest. For quarterly amounts past due, specify a date that payment must be received by in order to avoid legal collection action. Take additional legal action based upon established written criteria if payment is not received by the specified date.

F) Mail computer billings directly to employers having outstanding liabilities on a routine, periodic basis. After an established period transpires, initial civil legal action should begin.

G) Implement continuous computer aging of outstanding accounts. Develop a reporting system that gives the section an aged accounts receivable with adequate usable data to insure that a maximum collection effort is directed at the current receivables.

H) Develop and implement a comprehensive training program to insure an adequate level of competence and uniform collection effort.

CHAPTER TWO
THE CONTRIBUTION SECTION

2.1 The Contribution Section is a defined, segregated section in the Division of Unemployment and Disability Insurance and is part of the Bureau of Contributor's Service in that Division. The Section is responsible for reviewing and preparing the quarterly tax reports for input by the EDP Section and for depositing employer tax payments.

2.2 The Section is divided into four units or functions:

1) The Mail Reading Unit - Receives tax reports and correspondence and, upon review, routes them for further action.

2) The Cash Control and Auditing Unit - Receives tax reports that are accompanied by payment, prepares the payments for deposit and forwards the tax reports for processing to the EDP Section.

3) The Adjustment Unit - Receives and reviews tax reports which require contact with the employer for clarification of the filed report. Based on the obtained information, the adjustments or corrections are recorded.

4) The Employer Record Unit - Receives and reviews tax reports which require clarification and which can be clarified by contacting the Status Section or File Section within the Division of Unemployment and Disability Insurance.

2.3 Transactions pertaining to employer reporting and payment compliance are segregated and dealt with as either "clean transactions" (transactions where the employer's tax report is properly completed accompanied by a check for the appropriate amount) or "other transactions" (all other types of tax reports). Clean transactions are routed to the Cash Control Unit. It prepares the tax reports in batches of 90 items, totaling the amount paid columns on the reports. Other individuals within the unit will complete a manual adding machine tape of the corresponding employers' payment checks. Upon reconciliation of the two tapes, the batched tax reports are prepared for computer input. All batched tax reports are accompanied by a batch control sheet. Batched reports prepared during the work day will be processed during the second and third shift that evening.

2.4 The checks are not deposited at this time but are wrapped with their adding machine tape and placed in a safe within the Contribution Section. An average of twenty-five to thirty million dollars during peak periods and nine hundred thousand to one million dollars during other times in unendorsed negotiable checks remain overnight or all weekend in the safe. Interviews with section personnel revealed that the combination on the safe has never been changed subjecting the checks to unauthorized use.

2.5 After processing the tax reports, the EDP Section will send a total liabilities report, a batched total report and a deposit allocation analysis to the Contribution Section. The Cash Control Unit will verify the total liabilities report with the batched check totals. Upon reconciliation, the checks stored in the safe are stamped for deposit with batched numbers automatically stamped on them. The checks are microfilmed and deposit slips are prepared based on the deposit allocation analysis. ,The daily deposit is sent to the bank by an 11:00 A.M. courier.

2.6 All other transactions require manual adjustment and are forwarded to either the Adjustment Unit or the Employer Records Unit. Checks received with incomplete or no tax reports are deposited into a suspense bank account until the transactions can be cleared.

2.7 The implementation of a specifically tailored direct deposit system similar to the one described by the flowchart in Exhibit A (2.12) would create several distinct advantages over the present system described above. They are:

- 1) A direct deposit system would eliminate the present EDP practice of simultaneous entry of an employer liability and elimination of that liability from one source document.

2) Large amounts of cash would no longer be handled by the Department of Labor and Industry but instead would be under the direct control of a bank. This would increase the accountability and reduce the possibilities of theft and destruction.

3) Employer accounts could be updated on a timely basis. In addition, minor computer programming changes could be implemented to allow a credit balance in an employer's account. This would allow the employer's account to reflect all payments made even though manual adjustments are needed on his tax report.

4) The Department of Labor and Industry may, upon implementation of the system and after conducting management feasibility studies, determine that a reduction in work force is possible since many functions now being performed manually by the department would be performed by the bank.

5) Since the balance in the suspense account would be substantial (25 to 30 million dollars per day during peak periods and up to a million dollars per day on other periods) the State could negotiate for interest on the account or negotiate for the reduction or elimination of service charges.

2.8 Tax reports and checks received without an employer account number are forwarded to the File Section for a manual alpha lookup. When completed, the File Section returns the tax report and checks to the Cash Control Section for processing. Interviews conducted during the course of the review disclosed that checks and reports remain overnight in the File Section and are stored in a locked file cabinet. In addition, at any time during working hours, thousands of dollars worth of unendorsed checks are in several different sections with little or no accounting records to indicate the location of the checks.

MAJOR FINDINGS -

2.10 A) The section does not make timely deposits of daily tax payments received. Inadequate accounting records do not allow the section to determine total daily receipts.

B) Cash Control does not endorse checks upon receipt and accounting records are not adequate to insure that all checks received by the section are deposited.

C) Poor internal control is placed over unendorsed checks which are allowed to leave the section.

D) During peak periods, 25 to 30 million dollars worth of unendorsed negotiable checks are left undeposited overnight. The average during regular period is approximately one million dollars.

E) The section prepares the employer input to establish the receivable and eliminate the receivable from only one source document.

F) The section becomes backlogged during peak periods. This can create situations where employer filings and payments are timely while the accounts are not updated. This situation can cause such employers to receive delinquent notices and/or assessments.

G) No procedural manual exists for the section.

RECOMMENDATIONS -

2.11 A) Develop and implement a direct deposit system for all cash receipts. The system while tailored to Department of Labor and Industry specification should encompass sound business techniques and insure adequate internal control.

 B) Conduct management feasibility studies to determine if the section could maintain efficiency while reducing its staff if the direct deposit system were implemented.

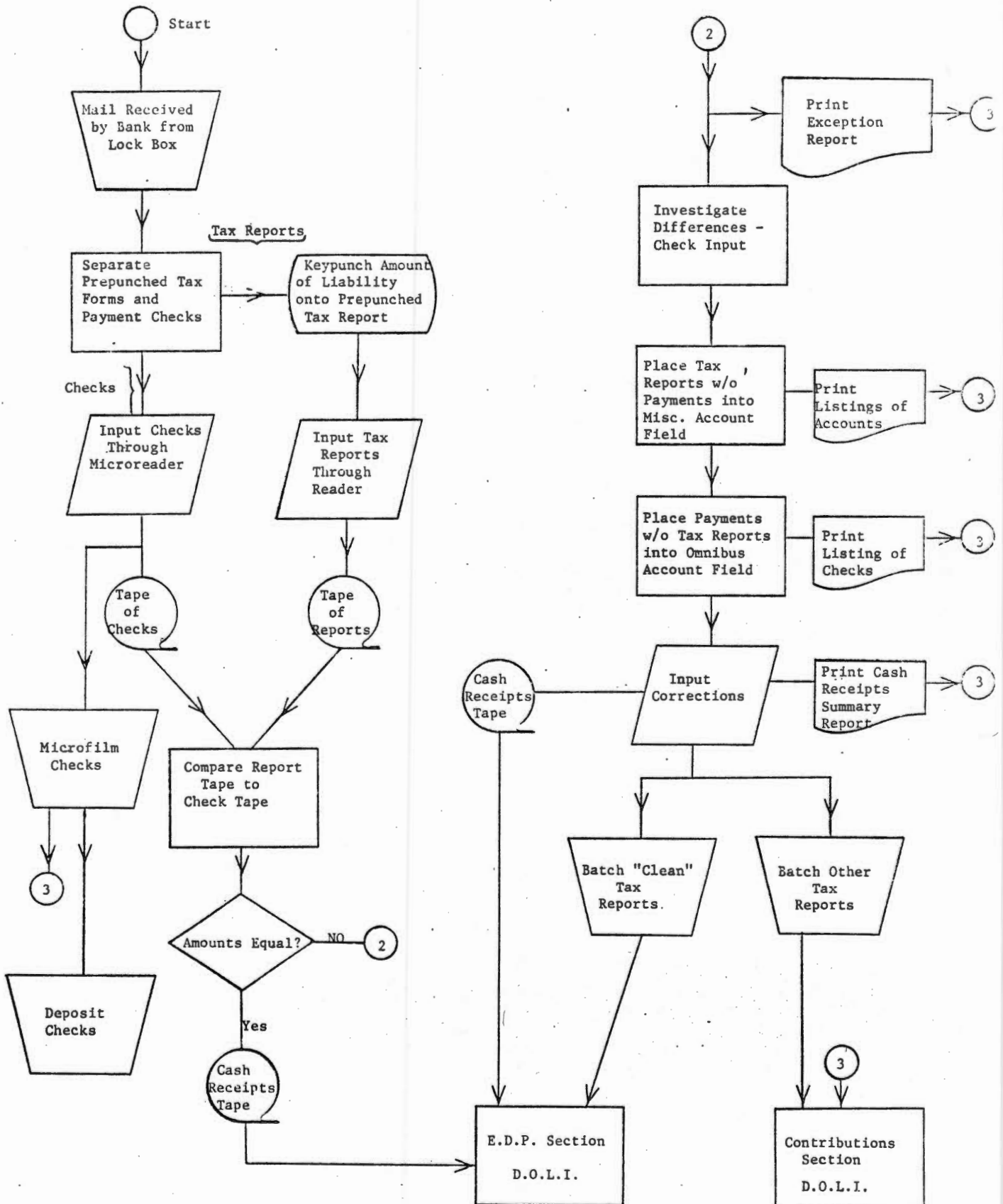
 C) Develop on-line alpha employers status capabilities so that manual lookup of employer information files is eliminated.

 D) Establish a standard operating procedures manual for the section. Attention should be paid to the main functions of the section and how it interrelates to other sections within the Division of Unemployment Compensation and outside banking agencies.

 E) Develop and implement a comprehensive training program to insure uniform levels of competence.

PROPOSED DIRECT DEPOSIT EMPLOYER TAX RECEIPT SYSTEM

GENERAL BANK FUNCTIONS



CHAPTER THREE

THE FILE SECTION

3.1 The File Section is a segregated function in the Division of Unemployment and Disability Insurance and is part of the Bureau of Contributor's Services. The Section is responsible for maintaining records relevant to the tax collection effort of the Division.

3.2 The Section is divided into four units:

1) The Service Unit has five employees who handle incoming and outgoing mail. It functions as a pickup and dropoff point for the central mailroom handlers and maintains files on employers' quarterly tax reports.

2) The Numeric Unit has twenty-six employees who maintain active employer files and inactive employer records for five inactive years. The files are stored numerically using a terminal digit. This unit also maintains file control and tracking within the section.

3) The Alpha Unit has nine employees who maintain employer files on non-labile employers and employers in the process of obtaining registration numbers.

4) The Index Unit has eighteen employees who maintain a computer generated card index on an alpha basis for employer registration number lookups. Employer tax reports with payment checks are sent here for alpha cross index lookups. This unit handles 1,500 to 2,000 transactions per day. Unfinished lookups and checks are placed in a lockable filing cabinet for overnight storage. Two CRT

terminals are located in this unit but they can only access employer data by employer registration number. During the review, it was requested that an alpha search be attempted on the CRT, and the end result was an error message.

3.3 Because of the limited access ability of the CRT's, they are only utilized for approximately 100 transactions per day (5-7%). The employer's status information available by computer was reviewed. It was discovered that the files did not have telephone numbers displayed on the line spaces available for the numbers. These telephone numbers would be very useful to this section, the Collection Section and the Contribution Section, and if used in conjunction with an alphabetic retrieval capability, would reduce the dependence of those sections on the manual system currently being maintained.

MAJOR FINDINGS -

3.4 A) The Section receives employer tax reports and employer payment checks from the Contribution Section for alpha cross index lookups. This practice violates the basic internal control characteristic of limiting access to assets.

B) Existing computer capabilities lack retrieval of employer status information by alphabetic input so that the existing hardware is only used in less than 10% of all lookups performed by the section.

C) This Section employs eighteen individuals who maintain a complete employer alpha cross index on a cumbersome manual rolodex system. This system limits access to the information by other employer tax sections and causes unnecessary delays in processing tax information.

RECOMMENDATIONS -

3.5 A) Eliminate the practice of payment checks being sent to the section.

B) Develop computerized employer alpha cross indexing system which would be available for use by other employer tax sections.

C) Store employer telephone numbers with other computerized status information. The Employers File Section in conjunction with the Status Section would monitor and update the employers' telephone listings.

CHAPTER FOUR

THE LEGAL PROCESSING SECTION

4.1 The Legal Processing Section is a defined, segregated Section in the Division of Unemployment and Disability Insurance and is part of the Bureau of Contributor's Service in that Division. The Section is responsible for the collection of delinquent employer tax reports, reviewing accounts referred to it for completeness of collection efforts, filing liens and claims against delinquent employers and abating assessed penalties.

4.2 The Section is divided into five units or functions:

1) The Delinquency Unit - Attempts contacts with employers who have failed to submit quarterly tax reports.

2) The Judgment Unit - Prepares and files liens and judgments against employers for unpaid liabilities.

3) The Bankruptcy Unit - Files claims as a creditor of employers who file for bankruptcy.

4) The Penalty Abatement Unit - Handles employer inquiries which dispute the penalty assessed against their account.

5) The Uncollectable Unit - Conducts final reviews of employer tax accounts to check that all collection efforts have been attempted before a final determination that the account cannot be collected.

4.3 Employer tax returns are due four times per year; the due date is thirty days after the end of each fiscal quarter. The EDP Section mails the returns directly to the employers. Within two weeks after the due date, the EDP Section generates a delinquency notice to employers whose tax return has not been received. Those notices are mailed directly upon production by the EDP Section. Copies of the delinquency notices are forwarded to the Delinquency Unit in the Legal Processing Section. The EDP Section will generate bi-weekly delinquency notices for a six week period.

4.4 The Delinquency Unit, upon receiving the delinquency notices, initiates a six week delinquency drive. Employer "cards" are manually pulled from files maintained in the section and matched with the delinquency notice. "Cards" are blue index cards prepared by the unit which contain handwritten notes memorializing prior telephone contact with the employer. In summary, the employer cards are the unit's history of their attempts to obtain delinquent tax reports from employers. If an employer has not previously been delinquent in submitting tax reports, no index card would exist for that employer. In a recent quarter, 22,000 delinquent employers were referred to the Delinquency Unit. By the end of the drive, approximately 7,000 were still delinquent.

4.5 The Unit has several alternative collection methods to employ. After the delinquency notice and available index cards are matched, the accounts are separated on the basis of what collection method will be applied to it. Discretion on the method to use lies with the section supervisor. For example, employers more than one quarter delinquent may be issued pre-subpoena notices. The next quarter, those same employers may receive a telephone call. Interviews revealed that there are no written criteria or standards to establish an overall methodology in obtaining delinquent reports.

4.6 The available tools and methods are:

- 1) Attempts at direct telephone contact.
- 2) A pre-subpoena letter.
- 3) A subpoena.
- 4) Referral to Audit and Field Services.
- 5) Referral for arbitrary assessment.

Observations revealed that the statistical data gathered is not adequate to formulate management decisions to determine the most successful collection methods for specified types of delinquent accounts.

4.7 Supervisory personnel advised that approximately forty percent of delinquent accounts are contacted by telephone. Employer telephone numbers must be looked up in telephone books if no index card is available. This information, as well as the employer's name, address and account number, is transcribed onto the employer "card".

The information is available on the employer's original registration form maintained in the Status Section. Employer telephone numbers are not currently maintained in the computer records. Consequently, this valuable employer information must be gathered manually by the individual examiner.

4.8 If a pre-subpoena letter is used, up to 4,000 may be issued per quarter. They are form letters and are addressed by Delinquency Unit personnel. That effort will require the unit's personnel for two weeks.

4.9 There is no formal criteria on what type of action should be initiated for employers who have failed to submit the tax reports from quarter to quarter. State regulation indicates that employers will not be liable for penalty, contribution or interest, except in cases of fraud, if a liability has not been established within a four year period. Arbitrary assessment is the only available means of establishing a liability if the employer fails to submit the quarterly tax report.

4.10 Delinquency notices forwarded to the unit specify all delinquent quarters for an employer. The Unit employs the collection tools and methods available, until such time as the collection of any outstanding tax due is threatened by the statute of limitations. At that point, the account is arbitrarily assessed and forwarded to the Collection Section for additional collection efforts. Interviews with the unit's personnel and record reviews disclosed that this

section will only arbitrarily assess an account for tax liability due as a last resort collection effort. The arbitrary assessment of an employer's tax account is not being used as a collection tool, but rather a substitute for an effective collection.

4.11 Observation and interviews revealed that Delinquency Unit personnel and the Collection Section are using the same methods to obtain, respectively, delinquent tax reports and delinquent tax liabilities. Delinquency Unit personnel were observed explaining to employers that the correspondence from the Delinquency Unit was not requesting tax money, but a delinquency tax report. Compounding the duplicative effort of direct employer contact by telephone or letter, is the generation and mailing by the EDP Section of two distinct types of notices, one for tax liability and one for delinquent tax reports.

4.12 Delinquency Unit personnel are trained on the job. There are no manuals to refer to for assistance. Consequently, significant collection effort decisions are made on an individual basis. For example, if a telephone contact is unsuccessful the individual has the discretion to use an alternative method of collection or cease all collection efforts.

4.13 The Judgement Unit prepares and files certificates of debt, writs of execution and warrants of satisfaction. The Collection Section refers cases of uncollected tax liabilities to the unit.

4.14 The Unit has no immediate access to the account profiles to decide if judgements being filed are as current as possible. Updating the account history prior to issuing the judgement is done manually.

4.15 Before filing liens and judgements, the Unit must obtain required background information from outside agencies, in particular, the Secretary of State's Office for corporate status. The Section supervisor advised that recently such background checks were stopped, with the result that the need to file amended judgements has increased significantly.

4.16 The review disclosed that there is a backlog of approximately 600 accounts awaiting action by the Judgement Unit. Collection action continues on these accounts by the Collection Section, even though they have previously been determined to be a problem case requiring legal action. This occurs because the EDP Section will continue to forward immediate and cycle bills to the Collection Section even after they have been notified that a judgement has been filed.

4.17 The Bankruptcy Unit checks Federal court records twice weekly, lists anyone who might be an employer, and has those names checked against the alphabetical files in the File Section. A claim as a creditor is prepared if the bankrupt employer is confirmed as a registered employer with an outstanding liability. In order to check any outstanding liability, the Bankruptcy Unit must request data from the EDP Section. The Unit has no direct access to employer accounting data. If the employer will not cooperate, or objects to the amount of liability being claimed, or if the employer cannot be located, the case is referred to the Bureau of Audit and Field Services to gather information.

4.18 The review disclosed that all bankruptcy claim information is manually stored on index cards and never inputted into data processing. This results in the inability of other sections to have direct access to information concerning the bankrupt employer, which results in the duplication of effort being performed by Collection and Legal Processing. In addition, the accounts receivable summary report is often inaccurate and difficult to prepare due to the fact that information must be manually retrieved and computed.

4.19 The Penalty Abatement Unit resolves penalty assessments disputed by employers. The Unit summarizes and refers cases to the Penalty Abatement Committee which operates under written criteria. There are, however, no standardized criteria identifying cases which should be sent to the Committee.

The Unit has no direct access to data processing information and must request data from other sections to determine if the employer is current on all liabilities and tax reports. When the Abatement Unit has received all pertinent information, the employer is contacted advising him of all outstanding liabilities and reports due before the penalty may be abated. Once payment has been submitted, the account is referred back to Penalty Abatement Unit and they repeat the entire process again.

4.20 The Uncollectable Unit is responsible for final review of employer accounts on which collection action has been unsuccessful. The Collection Section refers most of the cases to the unit which then reviews to determine if every attempt has been made to collect the employer's outstanding liability. Legal Processing Section personnel advised that they must return files to other sections because of confusion between what is an uncollectable and an inactive account. Inactive accounts are those that the Status Section has recorded as an employer who is no longer required to pay tax.

4.21 The Unit reviews uncollectable accounts to determine if all legal collection efforts have been accomplished:

- 1) The employer received routine billings.
- 2) A subpoena was issued.
- 3) All liabilities have been secured by judgement.
- 4) Writs of execution have been filed and resolved.

5) If a corporation, all officers have been contacted.

6) The Status Section has flagged the account inactive.

4.22 The following criteria for establishing that an account is uncollectable was provided verbally during the review:

1) All legal collection efforts have been pursued and one of the following is determined:

a) The employer is out of the State of New Jersey's jurisdiction.

b) The employer cannot be located.

c) Hardship case - it has been established that the employer cannot pay.

d) The employer refused to pay - if the business is a corporation, the individual officers cannot be held responsible for a corporate debt.

e) The employer is deceased and no estate exists.

4.23 The Uncollectable Unit has no direct access to information available from the EDP Section. All information relevant to a determination of uncollectability must be requested from other sections.

4.24 The uncollectable accounts are not removed from the accounts receivable ledgers but the employer account is flagged so that no additional collection efforts are made. This practice violates generally accepted accounting principles and results in the overstatement of an asset by an amount that has already been determined to be legally uncollectable. This category of accounts contains liabilities from 1936 through the present. As of June 30, 1981, the amount deemed uncollectable, but still carried as an asset, totalled \$44,878,693.88.

4.25 The Legal Processing Section has no manuals or written criteria of standard operating procedures to apply to the various determinations that must be made by the units. This can result in the exercise of wide-scale discretion by section employees and leads to an unorganized collection effort.

MAJOR FINDINGS -

4.26 A) There are no written guidelines, standard criteria or procedure manuals to insure uniform collection methods, to control individual discretion on the part of employees and to establish a framework for the referral of accounts between sections.

B) The statistical data gathered is not adequate for management to determine the success rate of the various collection methods.

C) Arbitrary assessment of delinquent employers is not being implemented on a standardized timely basis to be an effective collection tool.

D) Duplication of collection effort is being generated between the Delinquency Unit of the Legal Processing Section and the Collection Section.

E) Corporate history needed for Certificates of Debt and bankruptcy claims are not verified prior to, filing the claims.

F) None of the units within the Legal Processing Section have direct access to the employer's computerized account file or to account receivable information. In addition, the status of legal action against an employer is not computerized which results in restricting the flow of needed information to other sections and a time consuming manual summarization of account receivable totals. The manual summarization is inaccurate resulting in the understatement or overstatement of accounts receivable.

G) The accounts receivable for the Unemployment Funds are overstated by approximately \$44,000,000 since all accounts deemed legally uncollectable since 1936 are still carried as an asset.

RECOMMENDATIONS -

4.27 A) Establish written guidelines, standard criteria and procedure manuals to insure uniform collection procedures, limit discretion of individual employees and establish a framework for the referral of accounts between sections.

 B) Implement a training program on federal and state laws and regulations so employees will have a working knowledge of applicable statutory guidelines.

 C) Refer cases to a Deputy Attorney General when problems arise which cannot be applied to the established criteria and guidelines.

 D) Develop adequate statistical history in which management can analyze to determine successful collection methods.

 E) Utilize computer generated arbitrary assessment, on a timely basis, as a collection tool for delinquent tax reports.

 F) Combine the Collection Section and the Delinquency Unit so that a uniform and organized approach may be taken in collecting outstanding liabilities and delinquent tax reports.

 G) Verify corporate history when filing Certificates of Debt and bankruptcy claims.

 H) Establish on-line access to the employer's computerized account file and input all legal status so that on-line access may be made available to all sections and to insure the accurate summarization of the accounts receivables.

 I) Insure the fair and accurate valuation of the accounts receivable assets.

CHAPTER FIVE

THE STATUS SECTION

5.1 The Status Section is within the Division of Unemployment and Disability Insurance in the Bureau of Field and Audit Services. The Section is responsible for establishing new employer accounts and monitoring existing accounts for changes in their status, that is, whether the employer is active or inactive and whether the employer is exempt or non-exempt from taxability.

5.2 The Status Section relies primarily upon the employer to contact the State for registration requirements. However, the Federal Government will provide the State with a list of New Jersey applicants for Federal Employer Identification Numbers (FEIN's). The Status Section sends a letter and card (FS-416 & FS-416.1) to all employers contacting the State for registrations, as well as to all employers applying for FEIN's as shown on the Federal list. When the employer responds, a Status Report is sent out covering the appropriate business type involved. If employers fail to respond, there isn't any follow up contact or field review performed by the Status Section. This section's status report for August showed the following:

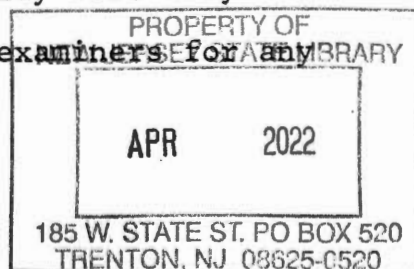
- a) 2,122 new employer accounts were activated.
- b) 221 employers were determined by Status Examiner not to be subject to the law.

c) 2,148 employers were inactivated based on employer correspondence stating that such employers no longer have a payroll and therefore are not subject to the laws. The review disclosed that the Status Section accepts this information from the employer at face value and performs no review process prior to inactivating an employer's file. The section relies on the field offices to inform them if any claims arise against inactivated employers.

d) 105 cancelled or erroneous registration numbers due to examiner error in processing the wrong employer or the same employer twice. The section's files are maintained on an alphabetic basis, therefore, a misfiling of an employer's record can cause the section to issue two or more account numbers. The integrity of the file relies upon a manual review since computerized alphabetic screening is unavailable.

e) 216 employers had their liability dates changed.

5.3 The Status Section is responsible for preparing the input to EDP for new employer registrations, changes to existing employer registrations, and inactivating registered employers. The EDP Section will assign the employer's registration number, automatically generating a letter to the employer. These letters are manually sorted by the Status Clerical Unit, reviewed by the examiners for any



necessary additions or deletions, then forwarded to the employers. The section cannot input data to EDP without having an assigned employer liability rate but can assign those rates to all employers except successor employers whose rates must be computed by the Office Audits Section. The review disclosed that a normal backlog in establishing new employer accounts is approximately three weeks. However, successor account rates are normally backlogged up to twelve weeks during the third quarter rate adjustment review period largely due to the fact that the rate setting process is based upon manual calculations performed by the Office Audits Section. If an employer is accidentally placed into an exempt status, the Status Section will not detect the error unless informed by the employer or an employee of the company files an unemployment claim. The section has similar internal control shortcomings for the detection of intentional employer misrepresentations that affect their taxable status.

5.4 The Status Section also interacts with the Contribution Section, File Section, Investigation Section, and the field offices. If the Cash Control Unit of the Contribution Section receives an employer's payment with the corresponding tax report showing no registration number, the File Section will be contacted to determine whether or not a registration number exists; if none exists, the tax report will be forwarded to the Status Section for input.

into the computer system so that a registration number is assigned. Status will reply to the Cash Control Unit once the registration number has been assigned so that the tax money can be properly distributed to the funds. If the employer is determined by Status to be exempt from the law, Status will inform the Cash Control Unit to refund the payment. The Status Section will handle requests from the field offices for employee payments where an employer registration number is not available. The field offices are not to make any payments until Status determines the registration number and responds to the field office. If Status determines that no employer exists, the Investigations Section will be contacted. The above described interaction between the Status Section and the Cash Control Unit, the File Section and the field offices can take from three weeks to three months depending on the time of year and type of employer.

5.5 The review disclosed that the Status Section does not input employer telephone numbers into the computerized master files. The input sheet utilized by Status is not designed to include employer telephone numbers even though the employer's status report requests a telephone number and the computer status information file has available space.

MAJOR FINDINGS -

5.6 A) The Section does not follow up on its initial contacts with employers who do not voluntarily apply for a registration number.

 B) The Section inactivates an employer that notifies the State of its change in status without performing adequate verifications of the employer information.

 C) The Status Section cannot assign liability rates to successor employers which must be performed by the Office Audits Section. During the months of July through September, the backlog for assigning rates is up to twelve weeks.

 D) The Section depends on the employer and/or field offices to discover errors in assigning exempt statuses.

 E) The Section does not have a formal comprehensive review process for approving their examiner's status determinations.

RECOMMENDATIONS -

5.7 A) Establish procedures for adequate verification of employer status changes.

 B) Promote and develop interagency cooperation, i.e. Division of Taxation, to enhance employer status verification.

 C) Establish supervisor reviews of examiner determinations on employer status.

D) Develop computerized alphabetic employer information retrieval capabilities.

E) Input employer telephone numbers as part of the computerized employer master file.

F) Monitor backlogs of a successor employer rate setting and implement a computerized rate setting process to reduce the backlog.

G) Standardize correspondence to employers in order to obtain uniform information from them.

H) Develop a comprehensive training program to insure that all employees operate at a minimum level of competence.