Enclosed is our report on the audit of the Department of the Treasury, Division of Revenue for the period July 1, 1998 to April 12, 2001.

If you would like a personal briefing, please call me at (609) 292-3700.

July 24, 2001
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Department of the Treasury  
Division of Revenue

**Scope**

We have completed an audit of the Department of the Treasury, Division of Revenue (DOR) for the period July 1, 2000 to April 12, 2001. Our audit focused on the processing of 927 and WR-30 documents and the transmission of applicable data from those documents to the Department of Labor (DOL). We also evaluated the timeliness of deposits and the reasonableness of backlogs. In addition, we reviewed the operations of the Bureau of Commercial Recording for the period July 1, 1998 to June 30, 2000.

**Objectives**

The objective of our audit was to determine the flow of data through the DOR for 927 and WR-30 documents in order to identify processing deficiencies which would contribute to erroneous data transfers. We also performed followup analysis for areas of concern noted during prior audit work performed at the division by our office.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

**Methodology**

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, circular letters promulgated by the State Comptroller, and policies of the division. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and test of financial transactions. We also reviewed data processing trends and interviewed division personnel to obtain an understanding of the programs and the internal controls.
A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were judgmentally selected.

To determine the status of corrective measures implemented to improve upon weaknesses disclosed during prior audit analysis of the division, we reviewed the corrective action plan proposed by management.

**Conclusions**

We found that the division had addressed prior areas of concern and showed improvement for each. Our review, however, found that the division’s transfer of WR-30 data to the Department of Labor contained erroneous information due to scanning and verification errors coupled with a lack of back end control edits.
WR-30 data should be reviewed prior to transmission to ensure the propriety of the data.

WR-30 DATA PROCESSING CONTROLS

The DOL form WR-30 reports employee wages on a quarterly basis. This form must be filed every quarter by all businesses within the State of New Jersey that pay wages to employees. The form is submitted to the DOR for processing. At the division, the forms are scanned and verified prior to the data being transmitted to the DOL.

The DOR is responsible for providing a data file that accurately represents the submitted WR-30 information from the employer. Although the information from the employer may contain errors, the data file is required to replicate this paper submission. To accomplish this task, the paper WR30 form is processed through a scanner to provide an optical character recognition (OCR) image. The form is also read by intelligent character recognition (ICR) software that provides a data file. The OCR image is utilized in the verification process to ensure that the data recorded by the ICR software is accurate. Data is verified to correct errors inherent in the scanning process.

Even with these controls, a Department of Labor audit dated July 24, 2001 reported that inaccurate data had been received from the DOR. With the assistance of DOR staff, it was determined that during high volume times the scanner picks up dust particles which could create data read problems and result in erroneous data. Our test disclosed that a dirty scanner would actually place erroneous data on the data file. Even though the division required that the scanners be cleaned and had controls within the verification process to prevent erroneous data from remaining on a data file, our review documented that the verification process was incomplete. We noted that inaccurate and non-existent names, social security numbers, and dollar amounts had been processed. These scanning and verification errors,
coupled with the lack of back end edit controls, allowed erroneous data to be transmitted to the DOL. Back end edits would increase the reliability of the data. Examples of back end edits would include a verification that social security numbers had nine digits or dollar amounts were within certain parameters.

**Recommendation**

We recommend that the DOR implement sufficient back end edit controls prior to the transmission of all WR-30 transactions.

**Auditee’s Response**

In response to the recommendation, the Division of Revenue is implementing a new DPS workflow procedure for WR-30s filed for the second quarter of calendar year 2001. The system automatically will run an edit program comprised of 41 edit checks against all batch data prior to transfer to the Department of Labor. If any of the edit checks is violated, the batch will not be released from the system, thus permitting correction while the original document images are on the system. Further, the Division will implement enhanced edit criteria to fine tune edit rules. The Division of Revenue expects that the newly implemented edit checks will respond successfully to the audit recommendation.