

ALTERNATIVE ESTIMATION SAMPLE METHODOLOGY:
QUESTIONS AND ANSWERS

Responses to the proposed Alternative Cashiering Estimation Sample methodology have been very positive. A few questions/issues were submitted and are addressed here.

Question 1. Why do we allow the adjustment of the number of samples pulled from day to day? Won't this tamper with the validity of the sample? Adjustments weren't permitted last year.

Response. The total sample size **GOAL** in the Sampling method in Chapter IV of ET Handbook 407 (RQC Handbook) is 500 sample items. The sample size **GOAL** of the proposed alternative method is also 500. The RQC Handbook states "It is more important to maintain a consistent sampling technique than it is to pull exactly 500 items. Once the sampling technique is established, do not alter it." This acknowledges that, although the sample size **GOAL** is 500 items, the actual number of sample items may not be exactly 500 and to maintain the integrity of the sample, consistency in the sampling technique is required. This also holds true for the proposed alternative. The difference is that the alternative method permits adjustments on subsequent days to accommodate daily over/under-sampling, thereby increasing the likelihood of meeting the **GOAL** of 500 sample items.

EXAMPLE: Assume a reviewer begins the day by pulling 10 items from each tray and finds that after 100 items have been pulled, there are 4 more mail trays from which to pull sample items. The reviewer should maintain the sampling technique and continue to pull 10 items from each tray, until all trays received that day have been sampled. This would bring the sample count for the day to 140 items. The next day the reviewer would need to estimate the number of mail trays anticipated and the number items to pull from each tray, to meet the goal of 200 sample items by the end of the 2nd sampling day. Therefore, on day 2, the sample goal will be 60 (200 - 140). If the reviewer estimates that 12 trays will be received, 5 items should be pulled from each tray. Assume then that 10 trays are received rather than 12 trays: the sample total for the day would be 50 instead of the estimated 60 sample items. The cumulative 2 day total would then be 190. On day 3, the reviewer should estimate the number of sample items to be selected from each mail tray to bring the cumulative total at the end of the day to 300. In this case, the reviewer should estimate the number of items to be pulled from each tray so that 110 items are pulled during the day, to meet the cumulative goal of 300 by the end of day 3. The reviewer would continue this pattern through the end of the 5th day. Even with daily adjustments, the total number of sample items may not be exactly 500 at the end of the 5th day.

Question 2. What should reviewers do with samples pulled that do not have a payment in them? Last year, these samples were ignored, but should we replace them now? Or do we adjust the numbers pulled each day to compensate for envelopes with no payment?

Response. During the course of the day, the sampling technique should be maintained; therefore, envelopes with no payment should NOT be replaced. The sample would be adjusted the following day to meet the cumulative goal. States that anticipate receiving large numbers of envelopes without payment (as in the case of zero tax rates), should increase the number of items selected to insure that they will have a sufficient number of payments. Technical assistance in sample development for this situation is available from the National Office.

Question 3. There is too much flexibility in allowing the States to select any 5 days from which to select sample items. There should be some uniformity in selecting which days from which to sample.

Response. The Quality Appraisal method and the Estimation Sample pilot both mandated that sample items be collected on specific days. However, this created a disparity in measurement due to wide variances in mail receipt by the States. (For instance, State A may receive large numbers of payments beginning two days before the due date and continuing two days after the due date, while State B may receive few payments before the due date, but continues to receive large numbers of payments for 5 days after the due date.) In addition, other elements such as the day of the week on which the due date falls, the weather, and other State-specific conditions impact the timing of mail receipt. Consequently, it was determined that the States could best estimate the time period during which the largest number of payments would most likely be received and that sample selection should be made during that period. Therefore, the instructions for the Alternative Cashiering Estimation Sample will require that the reviewers must determine the 5 days during which the greatest mail receipt is anticipated and select samples from those days. The reviewers must be able to support their decisions based on historical data and the quarterly report due date.

Question 4. Tax Chiefs were concerned that the flexibility of the alternative method would diminish the ability to compare across State lines.

Response. There should be no attempt to compare deposit timeliness across State lines. The Cashiering Pilot and data from the 1996 Cashiering Estimation Sample Review proved that the percentage of payments covered during the sampling period varies significantly from one State to another. Although all States receive an influx of payments near the due date, the

concentration of those payments can spread over several weeks in some States, while in other States payments are concentrated into just a few days. Consequently, while State A may receive 80% of its payments on Days 1 - 5, State B may receive only 40% of its payments on those same days. The effect of this is that States A & B aren't measured uniformly (80% vs 40%) when specific days for measurement are mandated (as in the Quality Appraisal method). Attempts to measure deposit timeliness based on the percentage of payments received proved equally unsatisfactory because some States require much longer periods of sampling than others to meet equal dollar percentages. The revised alternative sample method will provide a more accurate gauge of deposit promptness by requiring that sample items be selected from the 5 days of heaviest anticipated mail receipt.

Question 5. Deposit timeliness was included as a Tier 1 measure under the proposed UI Performs system. Tier 1 measures require uniformity of application. Due to variances in the receipt of contribution payments among the States, Deposit Timeliness should be removed from Tier 1 status.

Response. Although the revised deposit measurement will more accurately gauge deposit timeliness within a State, uniform populations (equal percentages of payments) for Deposit Timeliness cannot be measured across State lines. Consequently, the appropriateness of Deposit Timeliness as a Tier 1 measure of UI Performs is being reconsidered.