

## **Arizona's Audit Process for New Hire Reporting (Revised 5/8/2000)**

When New Hire Reporting began in October 1997, many States decided to contract out all or part of their operations. One reason was that private companies already had the software and technical expertise to get a program up and running quickly. The responsibility for oversight, however, remained with the State agency that hired the private vendor. A carefully crafted request for proposal (RFP) often included a clause requiring a high degree of accuracy for the manual data entry of those new hire reports arriving by paper, including faxed or mailed reports.

Arizona contracted with Policy Studies, Inc. (PSI) in 1998 for new hire reporting. Now in its second year with PSI, Arizona is presently paying \$.38 per record with no distinction made between reports received electronically and those received on paper that must be manually entered. Arizona does not pay for duplicate records.

### **First year implementation**

Arizona's contract with PSI calls for an accuracy rate of 99.8%; Arizona checks for accuracy (of those reports entered manually) by performing monthly audits, according to Catherine Chislock, Project Manager. Any errors picked up during an audit are corrected and returned to PSI for review. The contract called for financial penalties for failure to achieve an accuracy rate of 99.8%, but Arizona declined to assess any penalties during the first year because both the State and the vendor were occupied with getting the program implemented, including working out just how the audit would be performed.

### **Audit methodology issues**

The original methodology used stated that a new hire report found to have any error was considered to be an incorrect report. During the first year, PSI requested a review of the methodology for determining what constitutes an error. Arizona asked PSI to offer proposals to change the methodology, and after much discussion, the State and the vendor came to an agreement on a new methodology. Arizona was concerned most of all that an error would prevent the matching of a new hire "hit." As a result, the State and vendor came up with a two-tiered formula that, in essence, considers some data more important than other data in a new hire report.

### **New methodology**

The new methodology states that a new hire report will be considered incorrect if an error is found in any of these data elements:

- The first three characters of the employee's first name
- The first five characters of the employee's last name
- Employee's Social Security number
- Employer's Federal Employer Identification Number (FEIN)

As a quality control measure, PSI "double keys" the FEIN. A data entry operator enters the FEIN and all other new hire data, and a second operator enters the same FEIN to access and verify the new hire information.

Other data was less heavily weighted. A data entry operator could make up to five errors (with each character error counting as 20%) before the entire report would be considered incorrect. The data considered less critical includes:

- Employer's name
- Employer's address
- Employee's address
- The fourth and succeeding characters in the employee's first name
- The sixth and succeeding characters in the employee's last name
- Employee's middle name/initial

Arizona and PSI agreed on the methodology and an amendment was made to the contract in August 1999.

### **How an audit is conducted**

Audits in the Arizona New Hire Reporting Program take a considerable amount of time. The person performing the audit pulls the hard copy report of about 370-380 manually entered new hire reports and checks them against the new hire data on Arizona's computer system. The sample size is arrived at using a formula that assumes a 95% confidence rate, a 2.2% precision rate, and a variance expectation of 5% or 95%. The process takes about 60 hours. Arizona corrects any errors in their computer system and then returns the incorrectly entered reports to PSI to be used for training purposes.

### **Financial penalties**

Arizona's contract with PSI calls for financial penalties of \$1,000 in a month in which the vendor fails to achieve the 99.8% accuracy rate using the new methodology for determining accuracy. Arizona has been averaging 102,600 new hire reports per month, so a penalty would represent about 2.6% of PSI's monthly revenue for this project.

Catherine Chislock, Project Manager of Arizona's New Hire Reporting Program, praised the good working relationship that the State has with PSI. For further information on this audit process, please contact her at (602) 274-1482, ex. 4977 or e-mail [cchislock@de.state.az.us](mailto:cchislock@de.state.az.us)