

PERFORMANCE AUDIT

DEPARTMENT OF REVENUE
COLLECTIONS AND TAXPAYER SERVICES FUNCTIONS

Report to the Arizona Legislature
By the Auditor General
July 1988
88-6

DOUGLAS R. NORTON, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

LINDA J. BLESSING, CPA
DEPUTY AUDITOR GENERAL

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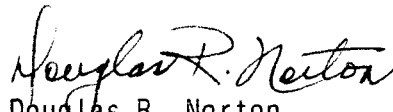
Members of the Arizona Legislature
The Honorable Rose Mofford, Governor
Mr. Paul Waddell, Acting Director
Department of Revenue

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Department of Revenue, collections and taxpayer services functions. This report is in response to the provisions of Chapter 401, Section 6 of the 1986 Session Laws.

Since our 1985 audits, DOR has made significant improvements in both the collections and taxpayer services functions. However, DOR could collect an additional \$5 million annually through further automation and at least another \$4 million by working unlocated accounts more aggressively. In addition, DOR needs to improve its supervision and training of collectors and improve its processing time for taxpayer inquiries.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,


Douglas R. Norton
Auditor General

DRN:lmn

STAFF: William Thomson
Peter N. Francis
Arthur E. Heikkila
Mark J. Syracuse
J. Lee Milman

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Revenue, collections and taxpayer services functions, in response to the provisions of Chapter 401, Section 6 of the 1986 Sessions Laws. This report is a follow-up of our 1985 audits of these functions.

Since our last audits, the Department of Revenue (DOR) has reorganized its collections and taxpayer services functions several times. Currently, the collections function is comprised of phone and field collections, which attempt to secure payment through phone calls, letters or field visits. The taxpayer services function was recently reorganized into the Taxpayer Support and Education Services Division. This division handles taxpayer general inquiries and refund questions, and researches disputed billings. The Bingo Section is also located in the Taxpayer Support and Education Services Division.

DOR COULD INCREASE PHONE COLLECTIONS REVENUES BY AT LEAST \$5 MILLION BY FURTHER IMPROVING COLLECTIONS METHODS (see pages 9 through 13)

DOR could increase phone collections productivity, generating an additional \$5 million annually, by further improving collections methods. Using an autodialing enhancement for its automated collections system would increase collector productivity significantly. Currently, DOR phone collectors manually dial account phone numbers. This is very time consuming because only half of the calls are productive, resulting in a contact with a taxpayer. With an autodialer, a computer predials phone numbers until a taxpayer is contacted. Unanswered calls, busy signals and operator intercepted calls are screened out, allowing collectors to concentrate on productive calls.

DOR estimates it could increase phone collections productivity--and thus increase phone collections revenues--by at least 10 percent by using an autodialing system. Several other states and the IRS use autodialing and have experienced even greater productivity increases. Currently, DOR contacts an average of two taxpayers per hour per collector. By contrast, the IRS expects their collectors to contact five taxpayers per hour.

With a 10 percent increase in phone collections revenues, DOR could realize a \$5 million annual increase in phone collections revenues. This increase could be obtained at an estimated cost of approximately \$500,000 to purchase the autodialing equipment plus some implementation costs.

DOR COULD COLLECT AT LEAST \$4 MILLION IN ADDITIONAL REVENUE IF UNLOCATED ACCOUNTS WERE WORKED MORE AGGRESSIVELY (see pages 15 through 18)

DOR could collect a minimum of \$4 million in additional revenue by aggressively working unlocated accounts. Unlocated accounts are those for which DOR does not have a current address or phone number to contact the delinquent taxpayer.

DOR has nearly 45,000 accounts without current phone numbers, and nearly 42,000 accounts without current addresses. Combined, these nearly 87,000 accounts represent more than \$42 million owed to the State. We estimate that DOR could collect at least 10 percent of this \$42 million. (DOR officials tell us a 10 percent estimate is conservative. One DOR official believes approximately 24 percent could be collected.) However, DOR only has two people assigned to locate current phone numbers for these accounts. No one is assigned to locate current addresses. Further, the number of accounts with missing phone numbers is increasing faster than the two staff can work.

DOR needs to assign more staff to locate these accounts. In addition, DOR should adopt methods used by the IRS and other states such as computer searches of telephone company listings, motor vehicle registrations and property records. DOR should also review the feasibility of using private vendors to locate accounts.

DOR NEEDS TO STRENGTHEN SUPERVISION AND TRAINING OF COLLECTIONS STAFF
(see pages 19 through 25)

DOR needs to improve supervision and training of collections staff. Individual collector performance indicates that some collectors do not meet acceptable levels of productivity. Collector performance varies widely, and does not on average meet DOR's established performance standards. In addition, many collectors do not follow DOR collection guidelines. For example, collectors take too long to levy accounts when taxpayers refuse to make, or keep, payment agreements.

Currently, DOR management exercises minimal supervision over collectors. DOR needs to increase its phone collector supervision to ensure sufficient collector performance. DOR also needs to provide sufficient training to new collectors, particularly on good collections technique.

TAXPAYER SERVICES HAS GENERALLY IMPROVED, HOWEVER, DELINQUENT BILLING INQUIRIES ARE STILL NOT RESOLVED IN A TIMELY MANNER (see pages 27 through 39)

Although Taxpayer Services has improved since our last audit, billing inquiries are still not resolved in a timely manner. DOR has made several substantial improvements resulting in more efficient processing of taxpayer inquiries. These include reducing its reliance on temporary personnel, adopting an automated case tracking system, and improving phone service.

However, DOR needs to improve its response time for correspondence inquiries from taxpayers disputing amounts owed. Our analysis revealed that in 1987 it took the Accounts Management Section (AMS) more than 125 days on the average to respond to taxpayer inquiries. This slow response is due in large part to a 131 percent staff turnover rate coupled with a three month average delay in filling vacant positions.

If DOR could reduce turnover to 50 percent and fill positions sooner, AMS could increase its productivity by 21 percent. DOR could reduce turnover through more effective management, upgrading worker salaries and improving training.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Revenue, collections and taxpayer services functions, in response to the provisions of House Bill 2181, Chapter 401, Second Regular Session 1986. This report is a follow-up of our 1985 audits of these functions.

The Department of Revenue (DOR) has reorganized its collections and taxpayer services functions twice since our 1985 audit. The most recent reorganization occurred in May 1988, with the formation of a new division, Taxpayer Support and Education Services. This division contains several functions, including: Accounts Management Services (AMS) which handles billing inquiries, Information and Legislative Services (ILS) which handles general inquiries and refund inquiries, Accounts Receivable, Education and Training, Taxpayer Education, and Bingo. The Collections Division, which was reestablished in May 1988, houses the Department's phone and field collections functions. From July 1986 until May 1988, DOR had grouped the Collections, Bingo and Taxpayer Services delinquent billing functions together under a division called the Revenue Enforcement and Adjustments Division (READ). During the same time period, the Taxpayer Services general inquiry and refund question functions were reorganized into the Information and Legislative Services Division. The May 1988 reorganization in large part recreated the 1985 organization structure for Collections and Taxpayer Services.

Organization And Personnel

The Collections Division had 201 staff in fiscal year 1988 in its Phoenix and Tucson offices. Information and Legislative Services and Accounts Management Services, within the Taxpayer Support and Education Services Division, comprises the taxpayer services function and has 69 permanent staff, with additional temporary staff hired during tax filing season. The Bingo and Accounts Receivable Sections, also within the Taxpayer Support and Education Services Division, have 13 staff and 11 staff, respectively.

Phone collections - The phone collections section collects past due taxes in the following tax types: corporate and individual income, sales and withholding. Phone collectors attempt to contact the taxpayer and either collect the amount due or place the taxpayer on a payment schedule. The section has 137 staff in its Phoenix and Tucson offices to carry out these responsibilities.

Since our last audit, the Department has instituted two significant improvements in its collections process to enhance efficiency and effectiveness. The first of these is the automated billing cycle, a series of computer generated letters which demand payment of taxes. Only those taxpayers who fail to respond to the final demand in this series of letters are referred to the phone collections section.

Another significant improvement is DOR's implementation of an automated phone collections system. The Computer Assisted Collections System (CACS) prioritizes accounts according to the dollar amount due to ensure that phone collectors are pursuing higher dollar accounts. In addition, the system provides DOR management with a variety of reports which allow supervisors to monitor collector productivity and performance.

Field collections - The field collections section has 57 staff in Phoenix and Tucson, divided into the field collections and bankruptcy units. The field collections unit handles cases the phone collections section has been unable to resolve and may seize a taxpayer's assets to satisfy an outstanding liability. This unit also collects luxury taxes and taxes from special events. The bankruptcy unit monitors business and individual entities that have filed for protection under various bankruptcy laws.

Table 1 summarizes the amounts of delinquent tax revenues collected for fiscal year 1984-85 through fiscal year 1986-87.

TABLE 1

DEPARTMENT OF REVENUE-ANNUAL REPORTS OF
DELINQUENT TAX REVENUES COLLECTED
FISCAL YEARS 1984-85 THROUGH 1986-87
(Unaudited)

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Payments Made In Response to Billings	\$11,343,065	\$36,902,776 (a)	\$46,830,313
Delinquent Tax Collections	78,075,754	85,048,350	80,402,880 (b)
Duplication, Credit Audits and Other Adjustments ^(c)	<u>unknown</u>	<u>(16,328,783)</u>	<u>(13,540,447)</u>
Total	<u>\$89,418,819</u>	<u>\$105,622,343</u>	<u>\$113,692,746</u>

- (a) According to DOR, the substantial increase from 1984-85 to 1985-86 reflects some billings that should have been attributed to 1984-85 but were inadvertently included in 1985-86 totals, and, the effects of the automated billing system.
- (b) According to DOR, the decrease in revenues from 1985-86 to 1986-87 can be attributed to shifting the reporting of some billing payments from delinquent tax collections to payments made in response to billings.
- (c) According to DOR, some collections of the audit unit were included in delinquent tax collections.

Source: 1986 and 1987 Annual Reports, Arizona Department of Revenue.

Accounts Management Services - Accounts Management Services has 49 staff. This section responds to questions from taxpayers about billings they have received. The accounts receivable unit, a separate section in the Taxpayer Support and Education Services Division, makes adjustments to and manages the accounts receivable system. The Accounts Receivable section has 11 staff.

Information and Legislative Services - Information and Legislative Services is responsible for answering general taxpayer inquiries or inquiries concerning refunds. ILS has 20 permanent staff in its correspondence and phone units, and hires additional temporary staff during tax season to handle its increased work load. ILS also staffs a walk-in office. Table 2 summarizes the work load for the taxpayer services function for fiscal years 1984-85 through 1986-87.

TABLE 2
TAXPAYER ASSISTANCE ACTIVITIES AND WORK LOAD
FISCAL YEARS 1984-85 THROUGH 1986-87

<u>Activity</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Correspondence received	80,731	57,574 (a)	51,844
Phone assistance	349,629	332,758	220,383
Walk-in assistance	41,327	47,967	35,276

(a) DOR attributes the decline in work load to improved taxpayer education programs in 1985-86.

Source: 1987 Annual Report, Arizona Department of Revenue.

Bingo - The Bingo Section is located in the Taxpayer Support and Education Services Division. The bingo function has 13 staff who license bingo operations, collect in lieu tax revenues and enforce the bingo statutes. There are currently 712 small and large game licensees in Arizona.

Table 3 summarizes the bingo section's enforcement activity for calendar years 1985 through 1987.

TABLE 3
SUMMARY OF BINGO SECTION ENFORCEMENT ACTIVITY
1985 THROUGH 1987

<u>Activity</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Compliance checks	198	70	212
Civil cases			
Opened	121	120	173
Closed	121	120	149
License revocations	3	1	1
Licenses cancelled	3	7	10
Informal resolutions	55	89	103
Criminal cases			
Opened	7	4	3
Closed	3	5	2
Indictments	5	80	0

Source: Bingo Section Management Report.

REVENUE AND EXPENDITURES

Taxpayer services and collections functions are funded primarily through the State General Fund. The bingo section previously received revenue from the collection of in lieu taxes, but under recent legislation, will now only receive General Fund appropriations. Table 4 summarizes the expenditures for the taxpayer services and collections functions for fiscal years 1985-86 through 1987-88.

TABLE 4

**DOR ACTUAL AND ESTIMATED EXPENDITURES
COLLECTIONS AND TAXPAYER SERVICES
FISCAL YEARS 1985-86 THROUGH 1987-88
(UNAUDITED)**

<u>Function</u>	<u>ACTUAL</u>		<u>ACTUAL</u>		<u>APPROPRIATED</u>	
	<u>FTE</u>	<u>1985-86</u>	<u>FTE</u>	<u>1986-87</u>	<u>FTE</u>	<u>1987-88</u>
Collections	165	\$3,079,400	164	\$3,537,600	201	\$4,422,100
CACS (a)	0	290,800	0	\$250,000	0	250,000
Taxpayer Services	52	956,500	67	862,400	69	1,351,800
Bingo	13	320,000	13	361,800	13	473,400
Accounts Receivable	<u>15</u>	<u>220,500</u>	<u>11</u>	<u>194,400</u>	<u>11</u>	<u>178,300</u>
Total	<u>245</u>	<u>\$4,867,200</u>	<u>255</u>	<u>\$5,206,200</u>	<u>294</u>	<u>\$6,675,600</u>

(a) This is the three-year cost of the Computer Assisted Collection System.

Source: DOR Comptroller's Office-Expenditure Report.

Audit Scope And Purpose

Our audit of the taxpayer services and collections functions concentrated on the phone collections and taxpayer assistance areas in both the Phoenix and Tucson offices. Detailed work, including on-site visits to the Internal Revenue Service's Regional Collections Center and Colorado's Department of Revenue, was conducted on the following issues.

- Whether phone collections revenues could be increased through additional methods improvements.
- Whether DOR has adequately pursued past due accounts that were previously not located.
- Whether supervision and training of collections staff is adequate.
- Whether the taxpayer services function has improved since our last audit and whether this area is operating efficiently and effectively.

In addition, we developed information about the organizational placement of the bingo function, and DOR's progress in implementing the recommendations from our previous report. This information is presented in the section Other Pertinent Information (see page 41).

Several other issues were not fully developed due to time limitations. The issues are discussed in the section Areas For Further Audit Work (see page 45).

This audit was conducted in accordance with generally accepted governmental auditing standards.

The Auditor General and staff express appreciation to the Director and staff of the Department of Revenue for their cooperation and assistance during our audit.

FINDING I

DOR COULD INCREASE PHONE COLLECTIONS REVENUES BY AT LEAST \$5 MILLION BY FURTHER IMPROVING COLLECTIONS METHODS

DOR could increase phone collections revenue by further improving collections methods. Installation of an autodialing system would increase collections by at least 10 percent, generating \$5 million annually in additional revenue. Automating the financial statement review process and extending the workday by staggering shifts would also improve phone collections efficiency.

Significant Improvement Since 1985 Audit

DOR has significantly improved its phone collections process since our 1985 audit (see Auditor General Report 85-8.) In 1985 we reported that DOR was not effectively pursuing delinquent accounts with large balances. Our report attributed this to 1) a poor account assignment system, 2) inadequate collector training, and 3) inadequate monitoring of collector productivity. To address these deficiencies, DOR implemented an automated collections system in 1987. This system prioritizes accounts by dollar amounts to ensure that largest dollar cases are worked first. In addition, the system provides reports of collector productivity and performance.

Autodialing System Could Increase Phone Collections Revenues By At Least \$5 Million

DOR could significantly increase its phone collections revenues through the use of an autodialing enhancement for its automated collections system. Using an autodialer, DOR estimates at least a 10 percent increase in phone collections revenues, or more than \$5 million annually. DOR could recoup autodialing system costs within one year through increased revenues.

How autodialing increases productivity - An autodialing system significantly increases productivity because it eliminates collector non-productive time on the phone. According to several collections administrators, approximately 50 percent of the number of total phone

calls made manually result in contact with a taxpayer (productive calls). Unanswered calls, busy signals and operator intercepted calls make up the other half of total calls made (unproductive calls). Collectors using a manual dialing system handle fewer productive calls because they must manually dial each account's phone number and wait to determine whether it will be productive. Using an autodialing system, collectors handle only productive calls. With an autodialer, a computer automatically predials phone numbers, screening out unproductive calls, until a taxpayer responds. The taxpayer is placed on hold until the collector is finished with the previous account. The autodialer always has a productive call waiting for the phone collector. According to industry and state officials, an autodialing system also increases productivity because it reduces time spent in preparation for the call, during the call and updating the account after the call is completed.⁽¹⁾

DOR estimates a 10 percent revenue increase with autodialer - DOR estimates a 10 percent increase in phone collections revenue from the implementation of an autodialer. The DOR phone collections group collected \$58.5 million in fiscal year 1987-88. A ten percent revenue increase as a result of autodialer implementation would equate to approximately \$5.85 million in additional revenue annually. DOR derived the 10 percent increase through an analysis of collector time spent on telephone calls that were not productive. According to the DOR analysis, unanswered calls, busy signals and operator intercepted calls comprised over 10 percent of collector's time. Because autodialing eliminates unproductive calls and the resultant time loss, collectors have at least 10 percent more time to spend on productive or revenue generating calls.

Other states and the Internal Revenue Service (IRS) experienced even greater productivity increases through implementing autodialing systems into their own collections processes.⁽²⁾ Because collections

(1) Another autodialing system benefit allows management to set parameters for accessing cases in the inventory. For instance, if backlogs are occurring in some tax types or if some accounts have been on the system a long time, management can prioritize the work load to ensure that these accounts are worked first.

(2) We visited and observed autodialing collections processes in both the Colorado Department of Revenue and the IRS regional phone collections center in Denver. We also spoke at length with other states that have successfully implemented autodialing systems including California, Florida and Illinois.

processes vary between states, other states productivity increases (up to 500 percent for certain phases of the process) cannot be expected of DOR. However, the IRS collections process is generally similar to DOR's, except that the IRS uses an autodialer. The IRS expects collectors to contact 5 taxpayers per hour. In contrast, our analysis showed that DOR collectors averaged 2 contact per hour for the time period of July through December, 1987. While factors such as better supervision and training may also contribute to IRS' greater productivity, this comparison at least demonstrates that increased productivity is possible. ⁽¹⁾

Increased revenue collections could quickly pay for system - The cost of implementing an autodialing system could be quickly recouped in less than a year's time. To equip all collectors with autodialers would cost approximately \$500,000 plus costs to interface with the existing automated systems. Once the system costs are recouped, DOR will continue to realize at least a \$5 million annual increase in phone collections revenues.⁽²⁾ Other states with autodialing systems reported that system costs were also recouped quickly.

Automated Financial Statement Review And Extended Hours Could Increase Efficiency

In addition to autodialing, DOR should consider two other methods to improve efficiency: (1) Automating the financial statement review process and (2) extending the workday by staggering shifts.

(1) DOR may experience even greater productivity increases, particularly if it modifies its collections process to take full advantage of autodialing efficiencies. Other states with very high productivity increases resulting from autodialing implementation have separate work groups for each step in the collections process rather than having each collector perform all steps for each account as is done at DOR.

(2) Once autodialing is implemented, we believe the productivity gains may allow DOR to eventually generate other revenues and/or savings by reducing staff or reassigning positions to other functions. For example, DOR could reallocate some collector positions to pursue non-filers of sales and withholding returns. Currently, DOR has a backlog of these accounts which exceeds 48,000. More staff are needed to help work these accounts, which are on the CACS system and handled like other accounts. In a limited effort from July 1987 through April 1988, DOR collected nearly \$3,000,000 from non-filers. DOR also has a significant backlog of unlocated accounts (see Finding II, page 15).

Financial statements - Automating the financial statement review procedure would also increase collector efficiency by leaving collectors more time for calling. According to the phone collections administrator, DOR's current procedure of reviewing taxpayers' financial statements is time-consuming and requires much manual effort. Collectors contact a taxpayer and request the taxpayer to submit financial information to allow DOR to determine the taxpayer's ability to pay. Once received, the data is analyzed and entered in the computer. The collector then calls the taxpayer again and sets up a payment arrangement.

Automating the financial statement review process would reduce paperwork handled by the collector and cut down on the number of calls per account. In many cases, in one call taxpayer financial information could be taken over the telephone and entered directly in the computer. During the call, the computer could analyze the data and the collector could determine the taxpayer's payment amount and schedule. According to the company that provided DOR its automated collections system, the cost for this enhancement is estimated at \$25,000.

The IRS has automated its financial statement review procedure to expedite the collection of past due taxes. IRS phone collectors obtain a taxpayer's financial information over the telephone and enter the information directly into the computer. According to an IRS official, this eliminates delays and the amount of correspondence handled by its phone agents. Moreover, the automated procedure ensures equitable treatment for all taxpayers by consistently calculating a repayment schedule.

Extended hours - Another way to increase efficiency would be to extend DOR's phone collection office hours. Currently, DOR's phone collection centers in Phoenix and Tucson operate only Monday through Friday from 8 a.m. to 5 p.m. Several other states and the IRS have extended phone collections hours to maximize their contact of delinquent taxpayers. Extending the hours of phone collections into the early evening and Saturday morning provides the opportunity to contact delinquent taxpayers

who work or are not home during normal business hours. A collection administrator at the Colorado Department of Revenue stated that phone collectors have a particularly high contact rate on Monday nights in the fall due to the popularity of Monday Night Football.

DOR made a limited attempt from 1984 through 1987 to extend collection hours, but did not continue the practice because, according to the collections administrator, few additional dollars were collected. However, this occurred prior to full implementation of the automated collections system which prioritizes accounts based on dollar amount and provides reports of collector activity and performance.

Recommendations

1. DOR should request from the Legislature an appropriation for the purchase of an autodialing system and an automated financial statement package.
2. DOR should extend its phone collections hours and schedule staff to work into the early evening and on Saturday morning in order to improve its telephone contact rate.

FINDING II

DOR COULD COLLECT AT LEAST \$4 MILLION IN ADDITIONAL REVENUE IF UNLOCATED ACCOUNTS WERE WORKED MORE AGGRESSIVELY

The Department of Revenue (DOR) could collect at a minimum \$4 million in additional revenue by aggressively pursuing currently unlocated accounts. The department could realize this additional revenue if only 10 percent of the \$42 million in unlocated accounts were collected. However, DOR has not committed enough staff resources for resolving these accounts and has not adopted methods used by other entities to more efficiently search for account information.

Aggressive Pursuit Of Unlocated Accounts Is Important

An important part of the process of collecting delinquent receivables is locating those individuals and businesses that owe taxes. Locating, or "skip-tracing" delinquent taxpayers involves using several research techniques, such as calling directory assistance or contacting the Department of Economic Security for employment information to determine a current phone number or address.

Aggressive pursuit of all delinquent taxpayers is important for two reasons. First, as accounts become older there is less probability that they will be collected because taxpayers may move out-of-state, declare bankruptcy, become destitute or pass away. The second reason for aggressive pursuit is the positive impact on future taxpayer compliance. According to an IRS official, strong enforcement is necessary to ensure that taxpayers comply with tax law requirements.

Additional \$4.2 Million Could Be Collected

DOR could increase revenue to the State by more than \$4 million if it collected only 10 percent of unlocated delinquent tax accounts. Currently, DOR has more than \$42 million in delinquent receivables owed by taxpayers who can't be located. These accounts are maintained in two

automated data systems. Accounts for taxpayers who can't be located because of inaccurate addresses are stored in the accounts receivable system. Accounts for taxpayers who can't be located because of inaccurate telephone numbers are located in the automated collections system (ACS). Based on December 1987 and February 1988 DOR information, unlocated delinquent accounts in both systems totaled \$42,391,981, which represented 25 percent of the total DOR delinquent account balance of \$168.5 million.

We selected 10 percent as a reasonable and conservative estimate of accounts that might be collected. Ten percent of the balance of these accounts is approximately \$4.2 million. According to DOR officials, a 10 percent collectibility rate for unlocated accounts is very conservative - a minimum estimate of potential revenue. A DOR collections official estimates that 40 to 50 percent of unlocated taxpayers could be contacted.⁽¹⁾ Of those, he estimates 60 percent of the accounts could be collected, which is approximately 24 percent of the \$42 million, or more than \$10 million. The IRS contacts more than 50 percent of unlocated accounts and collects 13 percent of those, according to an IRS official at the IRS Phone Center in Denver (which serves 10 western and midwestern states).

More Staff Needed To Work Unlocated Accounts

DOR has not allocated sufficient staff resources to resolve unlocated taxpayer accounts. According to DOR officials, no one is assigned to find the 45,000 taxpayers for which it has incorrect addresses. Only two staff are assigned to find the 42,000 taxpayers with inaccurate or missing phone numbers. Although these staff are locating some accounts, more accounts are coming in than are being resolved. From January 30, 1987 through December 27, 1987, the number of accounts with incorrect phone numbers in the Phoenix inventory increased from 3,088 to 14,867 accounts totaling \$16,817,633.

(1) In October 1986, DOR found that many delinquent taxpayers with incorrect address information could be located. DOR mailed letters to 362 delinquent taxpayers who did not have valid addresses, according to Department records. DOR received positive responses (either the taxpayer contacted DOR or the post office provided a forwarding address) for 101 of the 362 accounts (27.9 percent.) This is just one of several approaches used to locate taxpayers. Other techniques could further increase the contact rate.

The IRS devotes proportionally more resources toward its skip-tracing function than does DOR. The IRS Denver Phone Center has six staff assigned to work an inventory of 14,684 accounts. In contrast, DOR has two staff working nearly 42,000 unlocated accounts in the ACS system and no staff working the nearly 45,000 accounts in the accounts receivable system.

According to DOR collections management, the Department is considering placing eight new positions into the skip-tracing function. However, as of May 2, 1988, this had not yet been done. Eight additional positions to help recover the potential \$4 to \$10 million would cost the State an estimated \$128,000. However, cost savings from phone collections productivity improvements could make staff available for skip-tracing without any increased cost to the State (see Finding I, page 11).

**Adopting New Methods Could
Increase Location Function Performance**

DOR could improve its skip-tracing methods by adopting techniques used by other collection entities. For accounts on the ACS system (those without phone numbers), DOR currently uses mailings, directory assistance, Department of Economic Security (DES) employment information, Department of Transportation Motor Vehicle Division (MVD) information and address directories to determine delinquent taxpayers' phone numbers and addresses. However, except for DES information and other DOR tax information, these searches are all conducted manually. For example, DOR staff phone directory assistance to ask for phone numbers.

In contrast, the IRS has developed a more efficient and effective skip-tracing process. According to IRS officials, the IRS has automated several of its information sources. The IRS has an agreement with Mountain Bell to provide computer data tapes of names, addresses and phone numbers (unlisted phone number information is not provided). In addition, the IRS has developed an automated locator package which integrates data tapes from several state and local government automated information systems that contain employment, automobile and property data. Staff do a manual search only if these automated systems cannot provide information.

DOR could also make greater use of private vendors in locating accounts. Colorado uses private vendors to locate and collect accounts that are more than one year old, and the IRS employs private vendors to provide telephone information for those areas not served by Mountain Bell. According to a DOR official, DOR has considered but not yet implemented use of private vendors for skip-tracing.

Finally, DOR should consider combining unlocated account inventories, which are currently stored in two separate systems. DOR could simply transfer electronically accounts with inaccurate addresses from the accounts receivable system to the automated collections system skip tracing inventory. As mentioned previously, similar methods are used to locate accounts in both systems, yet DOR has not allocated any resources to work accounts in the accounts receivable system. Combining both inventories and assigning several staff to work these accounts would increase the likelihood that these accounts will be resolved.

RECOMMENDATIONS

1. DOR should devote more staffing resources to its skip-trace function to ensure that the State obtains maximum revenue from taxes and that taxpayers comply with State tax laws.
2. When possible, DOR should develop automated skip-tracing procedures to replace those currently performed manually.
3. DOR should review the feasibility of using private vendors to assist in locating delinquent accounts.
4. DOR should consider combining its accounts receivable and automated collections system unlocated account inventories, and form a skip-tracing unit to ensure that all accounts are worked.

FINDING III

DOR NEEDS TO STRENGTHEN SUPERVISION AND TRAINING OF COLLECTIONS STAFF

The Department of Revenue (DOR) needs to improve supervision and training of collections staff. Individual performance data and other evidence suggest that some collectors do not meet acceptable levels of productivity and do not follow proper collections procedures. Currently, minimal supervision is exercised to monitor and ensure adequate performance. In addition, collectors do not receive comprehensive and consistent training needed to perform effectively.

Some Collectors Perform Poorly

Analysis of collector performance data indicates that some collectors do not meet acceptable levels of productivity. Based on number of calls made and dollars collected, productivity varies widely among collectors. Collectors also do not always follow proper collections procedures and do not always employ effective phone techniques.

Performance standards and collections guidelines established by DOR help ensure that individual collectors meet acceptable levels of productivity and effectiveness. Collectors who do not meet acceptable standards or follow proper procedures reduce DOR's collections effectiveness. Low productivity among individual collectors can also result in costly overstaffing.

Collector performance varies widely - Our analysis of collector performance found that productivity varied widely. Some collectors perform well below established standards.

DOR standards require collectors to make or respond to 35 calls per day. This includes both incoming and outgoing calls. Based on an average of 18.2 workdays per month, collectors should be attempting approximately 637 calls per month. DOR has also established a standard of \$85,000 in

collections per month per collector. Other collections entities caution against evaluating collectors solely on the basis of dollars collected due to variations in amounts due. However, examining amounts collected along with other indicators of individual performance is reasonable because DOR's automated system prioritizes accounts according to amounts due and collectors access a common pool of accounts.

Based on a review of DOR management reports detailing collector performance from July through December 1987, phone collectors have not attained performance standards established by DOR for several collections activities. For example, the average number of calls handled on a monthly basis per collector ranged from 389 to 834, with a majority of collectors falling below DOR's monthly standard goal of approximately 637 calls. Further, average monthly collections amounts ranged from \$34,681 to \$122,898. Table 5 illustrates the wide discrepancy in collector performance compared to performance standards.

TABLE 5
COLLECTOR MONTHLY PERFORMANCE VS. DOR STANDARDS
JULY THROUGH DECEMBER 1987

	<u>Range</u>	<u>Average</u>	<u>DOR Standard</u>
Number of calls	389-834	521	637
Number of contacts	196-515	320	319 (a)
Dollars collected	\$34,681-\$122,898	\$73,274	\$85,000

(a) This figure is based on DOR's standard of a 50 percent contact rate. This contact rate is used by several organizations with phone collection operations. The data presented was compiled from collectors who were employed for the entire six month period.

Source: Compiled by Auditor General staff from DOR management reports for July through December 1987.

Procedures not followed - In addition to not meeting performance standards, many collectors do not follow DOR's collection guidelines. DOR has established guidelines for phone collectors for dealing with delinquent taxpayer accounts. For example, after two unsuccessful phone attempts, collectors should obtain levy information and send a final demand. If the taxpayer does not respond the account should be levied. Our analysis of some recent levies showed that collectors generally are very lenient, and only levy after many collection attempts have been made. The following examples illustrate instances of collectors disregarding collection guidelines.

Case 1: 2-1-88 - Collector called a taxpayer with an outstanding balance of \$954. No answer. Collector left a message for the taxpayer to call back.

2-4-88 - A final demand before enforced collection notice was sent to the taxpayer informing him to contact DOR or risk a levy of wages or bank account. A 20-day hold was set.

2-25-88 - The collector again called the taxpayer. The collector left a message for the taxpayer to call DOR. A 14-day hold date was set.

3-1-88 - The collector received taxpayer credit bureau information to help determine levy sources.

3-4-88 - The collector received employment information to help determine levy sources.

3-8-88 - The collector made a call to the taxpayer's place of employment and left a message. Another 14-day hold date was set.

3-22-88 - Another final demand notice was sent and the collector set a 24-day hold date.

Comment: According to DOR guidelines, this account should have been levied on 2-25-88, but was not because the collector did not obtain levy source information on a timely basis. Securing a levy source is one of the first actions collectors should take according to DOR guidelines. As of 4-15-88, 79 days since the account was first worked, no levy had been served or any payment made.

Case 2: 2-20-87 - A taxpayer was contacted by DOR collector for sales taxes due totaling \$1,079. Collector sent a financial statement form, to be completed and returned by the taxpayer by 3-2-87.

3-2-87 - Taxpayer did not remit the financial statement. Phone contact attempts were unsuccessful.

3-10-87 - Taxpayer called DOR and said the statement would be completed by 3-16-87.

3-13-87 - An installment payment arrangement was made with taxpayer.

5-14-87 through 2-18-88 - Taxpayer broke payment arrangement four times. Each time, the collector reset the payment arrangement.

Comment: The taxpayer should have been levied on 5-14-87, because of a broken promise to pay, according to DOR guidelines. Moreover, the collector did not perform a full compliance check to verify if other taxes were owed. In this case, the taxpayer had not filed personal income tax returns for 1985 and 1986.

Our observations showed that, in addition to not following collections guidelines, some DOR phone collectors did not use good collection techniques such as controlling the conversation and demanding full payment when attempting to collect past due taxes. A DOR collections supervisor also expressed concern that employees were using poor technique. According to IRS and private industry officials, proper phone technique is essential to an effective collections effort.

Supervision Needs To Be Improved

DOR management exercises minimal supervision of collector performance and technique. Management does not effectively use available performance reports nor monitor phone calls and review work to ensure that proper procedures are followed.

DOR management does not effectively utilize available collector performance reports to monitor and address inadequate performance. The automated collections system provides reports summarizing daily call statistics and how collectors use their time. These reports are generated to help supervisors monitor their staff in order to identify

and respond to performance problems. However, DOR supervisors make little use of these reports, claiming that other duties preclude them from spending enough time monitoring. However, other collections entities with similar supervisor to staff ratios stated that supervisors are indeed able to use management reports and monitor staff in addition to completing other tasks.

Although technically capable of doing so, DOR collections management does not monitor collector phone conversations with taxpayers. Monitoring phone calls allows the supervisor to determine whether a collector is using proper phone techniques. The IRS and Colorado use this method to help ensure that proper techniques are used. While listening, the IRS supervisor uses a standardized checklist of procedures to grade that conversation. Later, the supervisor relates any areas for improvement from the checklist. IRS supervisors are required to monitor an average of two conversations per collector every week.

Finally, DOR management does little review of collector work to ensure that proper procedures and guidelines are followed. According to DOR supervisors, collectors' work is usually examined only when supervisor approval is required for a payment arrangement or when liens and levies are issued.

Both the IRS and one major local bank regularly review collector work. The IRS has a separate quality control unit that samples completed work and also monitors phone calls. Results are compiled monthly and used to emphasize areas for improvement. The local bank we visited requires supervisors to review 40 percent of accounts older than 90 days to ensure that collectors are pursuing an efficient means of resolution. In addition, these supervisors monitor collector performance through system-generated performance reports.

DOR supervisors stated that they did not have enough time to properly monitor collectors because of other work requirements. Again, other

collections agencies with similar supervisor to staff ratios stated that supervisors monitor staff and are able to complete other tasks. To be effective, more supervisor review of staff must occur.⁽¹⁾

**Training Can
Be Strengthened**

In addition to better supervision, more comprehensive and consistent training is needed to enable collectors to perform effectively. Currently, training is not sufficiently comprehensive and on the job training is left to the discretion of individual supervisors. New phone collectors receive two and one-half weeks of training, which centers on the automated collections system, the accounts receivable system, the tax types and agency-wide topics. However, according to the phone collections administrator, no training is provided on proper telephone techniques. Further, any on-the-job training is left to the discretion of the individual supervisors. No uniform on-the-job training is provided.

In contrast to DOR, the IRS training program for new staff is comprehensive and includes training in the use of proper telephone technique. All new phone collectors at the IRS are given eight to ten weeks of combined classroom and on-the-job training. New collectors are closely monitored to ensure that proper techniques are used and guidelines are followed. According to the deputy branch chief at the IRS collection center in Denver, Colorado, trainees role-play as collectors while IRS management portray various taxpayer attitudes and behavior. Trainees have the opportunity to observe and practice proper phone technique.

(1) According to DOR, several other factors contributed to the wide variation in collector performance. These include the implementation of the automated collections system, high turnover and difficulty recruiting quality staff.

RECOMMENDATIONS

1. DOR should require collection supervisors to increase their review of collector performance and take corrective action when deficient performance is noted. Specifically, supervisors should monitor and review collector productivity, adherence to DOR guidelines and use of proper phone collection techniques.
2. DOR should include effective telephone collection techniques in its new collector training program instruction. In addition, on-the-job training should be consistent for all staff.

FINDING IV

**TAXPAYER SERVICES HAS GENERALLY IMPROVED;
HOWEVER, DELINQUENT BILLING INQUIRIES
ARE STILL NOT RESOLVED IN A TIMELY MANNER**

Department of Revenue (DOR) taxpayer services areas have generally improved since our last audit. The sections that respond to taxpayer inquiries now provide better phone service and more timely and efficient responses to correspondence. However, due to high staff turnover rate, the Accounts Management Services section is not able to respond to inquiries and billings within a reasonable period of time. DOR could reduce turnover in Accounts Management Services by improving management effectiveness, upgrading staff positions and providing better training.

Background

Since our 1985 audit, DOR has divided its taxpayer services responsibilities into two functional areas, Accounts Management Services (AMS), and Information and Legislative Services (ILS). AMS responds to taxpayer inquiries relating to amounts owed. ILS handles general inquiries from all taxpayers and answers taxpayer questions concerning refunds. Both sections respond to telephone calls and correspondence. In addition, ILS handles walk-in taxpayers in Phoenix.

DOR Has Made Significant Improvements In Its Taxpayer Services Areas

DOR has made several substantial improvements which have resulted in more efficient processing of taxpayer inquiries. Taxpayer services areas have significantly reduced their reliance on temporary personnel. Also, by separating the taxpayer services function into two sections that answer general and billing inquiries, respectively, response time for general inquiries has improved. Furthermore, the new automated case tracking system has reduced case duplication and improved accountability. Finally, improved phone service has also increased DOR's ability to handle inquiries.

Greatly reduced use of temporary employees - As we recommended in our previous audit, taxpayer services has reduced its reliance on temporary personnel. Our 1985 report found that taxpayer services had 21 permanent employees and approximately 72 temporary workers. Turnover was high, with more than 40 percent of the temporary employees leaving taxpayer services within three months. With such high turnover, training for new hires was minimal. As a consequence of high turnover and inadequate training, productivity was poor.

The taxpayer services areas have taken a significant step toward improving staffing problems by curtailing the use of temporary employees. AMS does not use any temporary staff. ILS has reduced use of temporaries during the tax season. For the 1988 tax season, ILS hired eight temporary phone agents, who have received three weeks of formal training. Additionally, according to the ILS administrator, management monitors the performance of the temporary workers they use.

Response time for general inquiries improved - General inquiries have been handled on a more timely basis due to the division of the taxpayer services function into two sections. In June 1986 the Taxpayer Service Division was split into Information and Legislative Services, which responds to general and refund inquiries, and Accounts Management Services, which handles billing questions. Our previous audit found that the former Taxpayer Services Division average time to respond to taxpayer inquiries was 51 days, and that much of the section's unanswered correspondence was more than 70 days old.

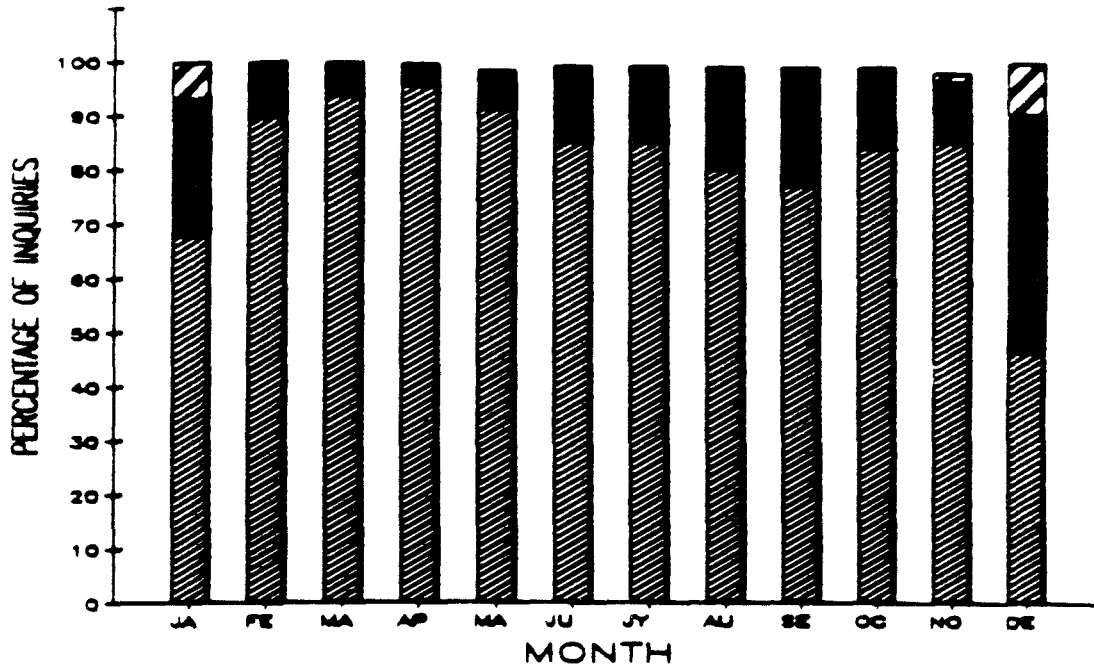
With the current division of the taxpayer services function, ILS is able to research and respond to general inquiries in a more timely manner. According to the ILS Administrator, DOR has a standard goal that inquiries be resolved within 30 days, with two additional weeks allowed if more information is requested from the taxpayer. Figure 1 (page 29) shows the percentage of cases falling above and below this standard during 1987 and shows that ILS generally meets this standard. Most general inquiries are answered within four weeks.

FIGURE 1




INFORMATION AND LEGISLATIVE SERVICES

AGE OF TAXPAYER INQUIRIES

1987



LEGEND

-  9-20 weeks
-  5-8 weeks
-  4 weeks or less

Source: Auditor General analysis of TRACS Aging Inventory Summary Reports - January 1 through December 31, 1987.

TRACS has reduced duplication - Automating the tracking of cases has also resulted in substantial improvements in case processing efficiency. Taxpayer Request Assistance and Control System (TRACS), the computer tracking system used by both taxpayer services sections to account for all cases, has reduced duplication and made workers more accountable to supervisors who can monitor case processing. During our previous audit we cited instances of more than one worker responding to the same inquiry while other cases were sometimes lost or hidden by employees. We also noted insufficient numbers of computer terminals for workers to obtain access to taxpayer information.

The implementation of TRACS has improved the processing of taxpayer inquiries. Casework duplication has decreased, according to the taxpayer services administrators. Using TRACS, caseworkers can check to see if an inquiry is being handled by another DOR area. TRACS portfolios for each worker list all cases in a predefined priority order and by the original inquiry date. Supervisors can check portfolios to determine whether cases are being worked in order and in a timely manner. Supervisors can then access individual cases on TRACS to check for accuracy. Since all workers have terminals at their desks, TRACS also allows them access to taxpayer information. This has saved time previously spent accessing cases manually or waiting for a terminal.

Phone service has improved - DOR's improved phone system has further enhanced DOR's ability to handle the volume of taxpayer inquiries. During our previous audit we found that taxpayer services lacked information on the number of taxpayers who attempted to reach them by telephone. This system did not measure numbers of taxpayers who received busy signals, who were waiting for assistance, or who had abandoned their calls. As a result, taxpayer services was not able to make staffing decisions to optimally meet the public demand for their services.

The current automatic call distributor used by ILS and recently expanded to AMS provides better phone service. This system measures average taxpayer waiting time, average talk time, percentage of abandoned calls, and average waiting times before calls are being abandoned. The ILS phone supervisor monitors waiting time of taxpayers and numbers of

abandoned calls, and makes staffing adjustments based on this information. Since the automatic call distributor was expanded to include AMS, this section will be able to better assess its staffing needs to handle phone inquiries.

Accounts Management Services Does Not Respond To Correspondence In A Timely Manner

While there have been improvements in DOR's taxpayer services areas, further improvements are needed. Accounts Management Services (AMS) does not complete work on correspondence cases in a timely manner. On the average, it takes AMS more than 125 days to respond to billing inquiries. Further, there is a large backlog of unworked cases in AMS, and during the past year the percentage of cases older than 20 weeks has increased.

Early in the course of the audit, the AMS administrator stated that DOR had established a standard goal of 60 days to resolve billing inquiries. However, the standard was suspended because AMS could not meet it. DOR later changed the standard to 90 days.⁽¹⁾ This standard is conservative and less stringent than some other states and the IRS. We surveyed five western states and found that of the three with similar taxpayer services functions, all have shorter response time standards than DOR. California and Utah, which handle billing and general inquiries within one section, have inquiry resolution standards of 21 days and 30 days, respectively. Colorado and the IRS, which, like DOR, handle billing inquiries separately from general inquiries, have billing inquiry resolution standards of 42 days and 40 days, respectively.

Accounts Management Services does not complete cases within the time standard - Although the standard DOR has set for billing inquiry resolution time is conservative compared to other states we surveyed, AMS

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- (1) During our 1985 audit, DOR had a 60 day standard to resolve all Taxpayer Services inquiries.
- (2) We sampled 383 cases, using numbers of cases in each tax type proportionate to their occurrence in the AMS correspondence work load, and were able to draw conclusions about the average case resolution time for 1987 at a 95 percent level of confidence with + or - 5 percent error.

has generally not been able to meet it. Table 6 illustrates the average correspondence case resolution time for each tax type. Further, the table shows that 124 days is the average age of inquiries received in 1987 which have not yet been resolved.⁽¹⁾

TABLE 6
AVERAGE NUMBER OF DAYS
TO RESOLVE BILLING INQUIRIES
CALENDAR YEAR 1987

<u>TAX TYPE</u>	<u>CLOSED CASES</u> <u>(N = 252)</u>	<u>OPEN CASES</u> <u>(N = 131)</u>
Personal Income	112	132
Corporate	174	233
Sales	140	85
Withholding	135	88
All Types Combined	125	124

Source: Auditor General analysis of sample data from Accounts Management Services Inventory January 1 through November 6, 1987.

Further review disclosed that most of the delay in response time occurred because cases were pending an average of 88 days before being assigned to someone who could resolve them. A smaller sample of cases showed that 70 percent of the total resolution time was spent waiting for cases to be assigned to a caseworker after inquiries were received.

(1) For cases not requiring adjustments to account balances, DOR notifies the taxpayer approximately two weeks sooner.

Table 7 shows the average time it took to complete each step of resolving an inquiry, for each tax type.⁽¹⁾

TABLE 7
AVERAGE DAYS FOR EACH INQUIRY PROCESSING STEP
CALENDAR YEAR 1987

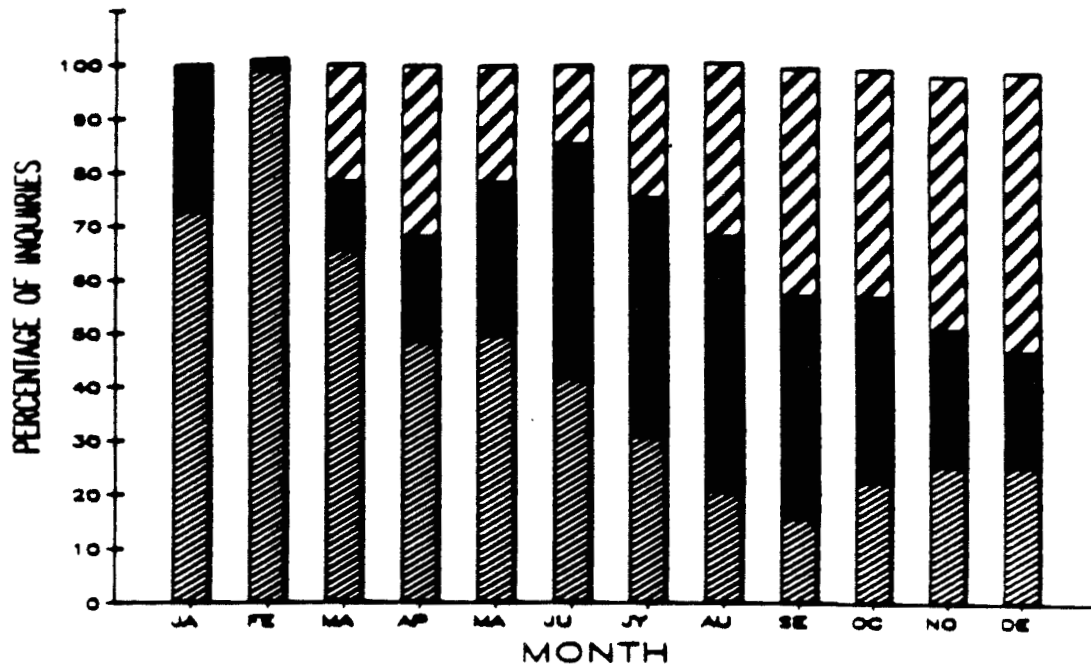
<u>TAX TYPE</u>	<u>BEFORE CASEWORKER ASSIGNMENT</u>	<u>CASEWORK COMPLETED</u>	<u>REVIEW, QUALITY CONTROL, CLERICAL PROCESSING</u>	<u>NUMBER OF CASES</u>
Personal Income	86	2	25	111
Corporate	185	1	20	3
Sales	36	2	5	11
Withholding	96	5	34	53
All Types Combined	88	3	26	178

Source: Auditor General analysis of sample data from Accounts Management Services Inventory January 1 through November 6, 1987.




Inventory contains many older cases - Further analysis revealed many older cases. During 1987 AMS was able to reduce its total inventory, but at the cost of allowing a number of cases to age considerably beyond eight weeks. The percentage of cases older than eight weeks exceeded 50 percent during eight of the 12 months. During four months of the year, more than 40 percent of the AMS caseload was older than 20 weeks. Figure 2 (page 34) shows the age of AMS cases, and an increase in the percentage of older cases throughout the year. According to the AMS administrator, this resulted because of a management decision to reduce the inventory by prescreening cases and responding to those that could be more easily resolved.

(1) The smaller number of cases in the inquiry processing interval analysis is a result of variations in the dating of cases by some AMS units, in an effort to track cases more accurately. This analysis incorporated only those cases whose intervals represented actual dates when processes occurred.

FIGURE 2
 ACCOUNTS MANAGEMENT SERVICES
 AGE OF TAXPAYER INQUIRIES
 1987



LEGEND

-  over 20 weeks
-  9-20 weeks
-  8 weeks or less

Source: Auditor General analysis of TRACS Aging Inventory Summary Reports - January 1 through December 31, 1987.

Excessive Turnover
Reduces Productivity

High staff turnover prevents DOR from attaining the productivity levels needed to improve processing time and reduce its case backlog. Not only is turnover in AMS excessively high, but positions remain unfilled for extended periods. Further, AMS staff generally terminate employment just as they are becoming productive. If the rate of turnover could be reduced, DOR could substantially increase productivity.

Turnover is excessive - The high turnover rate in AMS compares unfavorably with the other states we surveyed and with DOR's Information and Legislative Services section which does somewhat comparable work. In 1987, there were a total of 21 vacancies out of 16 taxpayer technician positions in AMS, for a turnover rate of 131 percent. Throughout 1987 staff remained with AMS about six months.

Other states have much lower turnover rates. Colorado and New Mexico, for example, estimate that their turnover rates are less than 10 percent, while Utah and California estimate their turnover rates at 20 percent and about 17 percent respectively.⁽¹⁾ While it would not be realistic to expect AMS, at least in the near future, to achieve these low turnover levels, a goal of reducing turnover to 50 percent may be reasonable. DOR's Information and Legislative Services section (ILS), which also responds to taxpayer inquiries, averaged 45 percent turnover from July 1986 through May 1988.

The high turnover and numerous vacancies in AMS in 1987 significantly reduced productivity. Position vacancies remained unfilled for an average of approximately 12 weeks during 1987. Unproductive vacant positions consumed the equivalent of almost five full-time positions, or almost one-third of the total AMS casework staff of 16.

Caseworkers leave as they become productive - Turnover also reduces productivity because, generally, workers leave soon after they have gained enough experience to be the most productive. We found a

(1) The California Taxpayer Services turnover rate does not include those workers who do not successfully complete the new hires training program, estimated at 20 percent.

statistically significant difference in the average time it takes to complete work on a billing inquiry between workers with tenure of at least six months and workers with less than six months tenure. Our analysis of worker productivity records for 1987 indicates that the group of workers with more experience was 43 percent more productive, completing an average of 5.88 more cases per week than the workers with less than six months tenure. Further, such gains in worker productivity did not occur prior to six months tenure. However, the average tenure of AMS caseworkers is about six months, showing that they terminate employment or transfer to other DOR areas soon after they achieve AMS productivity standards.

AMS could increase productivity by reducing turnover and filling vacancies in a timely manner - Based on our analysis of worker tenure and productivity, if turnover was reduced from its current level of 131 percent to 50 percent annually, and if the length of time positions remained vacant was also reduced to a reasonable period, AMS could handle approximately 2,467 additional billing inquiries annually. This would be a 21 percent gain in productivity, and would reduce the length of time currently required to complete a case.⁽¹⁾

DOR Should Take Steps To Reduce Turnover And Thereby Improve Productivity

Accounts Management Services could reduce turnover through more effective management, upgrading its taxpayer services positions and improving training. Both management problems and low grade and pay for workers negatively impact morale and contribute to high turnover. DOR could also improve morale and reduce turnover by providing better training for new workers.

DOR could reduce turnover by improving management - Several former and current employees of AMS cite management problems as a cause of turnover. We were able to contact 15 of the 24 workers who had left AMS employment in 1987. Eleven of the 15 contacted, 77 percent, reported that management problems contributed to turnover in AMS. These same

(1) See Appendix I for a discussion of how these estimates were derived.

employees noted that morale was poor in this section. Half of the former workers who were interviewed said that workers were not treated fairly. Six of the former workers reported that procedures were changed frequently, contributing to worker frustration.

Statements made by current workers indicate some of the same management problems reported by the former workers. We sent management climate surveys to all taxpayer services employees. Fifteen of the 49 employees in AMS responded, for a response rate of approximately 31 percent. Of those who did respond, eight disagreed with the statement "I have confidence in the fairness and honesty of management." Additionally, eight disagreed with the statement "We receive enough information from top management to do our jobs well." Interviews with current workers reflected the survey results. Some workers said that management problems, particularly the frequent changes in procedures, contribute to turnover.

AMS employees may be undergraded in comparison to other areas and states - Another step DOR could take to reduce turnover would be to increase pay and opportunities for advancement for AMS employees. Both former and current AMS employees cite low pay as a cause of turnover. AMS team leaders state that workers leave because of low pay. According to the AMS administrator, workers leave the section because there are better opportunities elsewhere in DOR. AMS currently does not have any supervisor positions, further limiting opportunities for advancement. Team leaders responsible for supervising and training as many as nine workers are classified as Taxpayer Services Technician IIIs, rather than as supervisors.⁽¹⁾ In contrast, the director of California's Taxpayer

(1) Similarly, in ILS only one of the two employees responsible for supervision is graded as a Taxpayer Services Supervisor, with the other graded at the same level as those who supervise employees in AMS.

Services Bureau noted that he is able to fill line supervisory positions with good workers because these supervisory positions are considered good promotional opportunities within the department.⁽¹⁾

Better training would improve morale and reduce turnover - Training for newly hired employees in AMS is inadequate and contributes to poor productivity. In our previous audit we recommended that training be improved. This generally has not occurred. The training and education section administrator stated that approximately 95 hours of training are mandated for new workers during their first three months of employment. She acknowledged, however, that difficulties in scheduling classes and pressures on workers to produce, rather than spend time on training, may reduce the amount of actual training received by individual employees.

According to the AMS Administrator, new hires during the past year have received almost no training from the Training and Education Section. AMS supervisors state that the training which is provided generally does not occur at the time a new hire starts work. The bulk of the training for new employees, according to AMS supervisors, occurs on-the-job. Team leaders report that they spend about two weeks training each new worker. However, procedural manuals used in on-the-job training may not be complete, according to one team leader.

(1) AMS management has stated that positions in that section are undergraded. Recently, the Department of Administration has studied the minimum requirements of the Taxpayer Services Technician series in AMS and recommended that the number of lead workers and supervisors be increased. Additionally, the Department of Administration recommended that all current AMS employees be upgraded from the entry-level to the journeyman level of the classification series, and that new employees be hired at a rate of 10 percent above the current starting pay. The intent of these recommendations, according to the Classification Group manager, is to reduce turnover, so other problems within AMS can then be addressed. The upgrading of the taxpayer services technician series as recommended by the Department of Administration would bring salaries more in line with those paid by Colorado, California and the IRS in their taxpayer services areas.

Additionally, some former and current AMS employees have stated that the quality of training they have received is poor. Ten of the 15 former employees who were surveyed about their reasons for leaving AMS, stated that the quality of training was poor. Current employees have also stated that training is inadequate. By contrast, both the IRS and California mandate formal classroom training of five weeks and four to five weeks, respectively. Further, new hires with both California and the IRS must pass training exams before they can begin work. These tests are designed to screen out workers who would function poorly on the job.

RECOMMENDATIONS

1. DOR should improve its response time to taxpayer inquiry correspondence by taking steps to reduce turnover and increase productivity. These should include:
 - a. Improving AMS management through more effective communication with employees and more stable and consistent operating procedures,
 - b. Improving training and adopting a formal training program for new hires, and
 - c. Creating a career-path for AMS workers by increasing the number of lead workers and supervisors.

2. DOR and the State Personnel Office should consider upgrading the taxpayer services technician series to bring grade and pay levels of these positions up to the levels of those in other DOR areas and in other states' revenue departments.

OTHER PERTINENT INFORMATION

Bingo Section

During the audit we developed information relating to changes that have occurred since our last audit and those which are proposed for the Bingo Section.

Our previous performance audit of DOR's Bingo Section (Auditor General Report 85-10) recommended that the Bingo Section strengthen its enforcement efforts and that the legislature adopt a multi-tiered bingo licensing system. Some positive steps have been taken by the Bingo Section to improve enforcement. In addition, legislation to create a multi-tiered licensing system has been adopted.

Previous Audit Recommendations

DOR has implemented most of the recommendations from our previous audit. We recommended that DOR strengthen enforcement of the bingo statutes by eliminating volume discounts on bingo playing cards, doing comprehensive criminal background investigations of license applicants, conducting routine and investigative audits of licensees, requiring that financial reports be completed by licensees for each bingo session, and conducting routine and undercover compliance visits. Table 8 (page 42) summarizes the implementation status of our 1985 audit recommendations.

TABLE 8

DOR IMPLEMENTATION STATUS
OF AUDITOR GENERAL REPORT 85-10
RECOMMENDATIONS

<u>Recommendation</u>	<u>Status</u>
Eliminate volume discounts	Completed
Require reports on each bingo session from licensees	In process (implementation delayed by multi-tiered licensing legislation).
Conduct audits of licensees	Program compliance auditor position to conduct audits of licensees added in 1988
Criminal background investigations including fingerprinting	DOR decided not to do fingerprint checks
Routine and undercover compliance visits	Approximately 200 compliance checks done annually, 50 percent undercover.

DOR has decided against doing fingerprint checks of licensees, citing the costs involved, the burden it creates on small game licensees, and the belief this requirement could be circumvented by those operators it is designed to identify. However, costs to fingerprint are minimal, approximately \$15, and could be passed on to the licensee as is done by the Department of racing. Administrative costs to DOR would be absorbed as a part of the regular licensing process. DOR could also explore ways to limit fingerprinting to larger game operators, thus avoiding a burden on small game licensees. Finally, to prevent operators from circumventing the fingerprinting process, DOR could insist that prints be taken by law enforcement agencies and that proper identification be shown before fingerprinting.

Without fingerprinting, DOR cannot conduct comprehensive background investigations on license applicants. Only through fingerprint checks can DOR legally access the Arizona Criminal Justice Information System operated by the Department of Public Safety (DPS) and the criminal history information maintained by the Federal Bureau of Investigation.

New Legislation Makes Major Changes In The Bingo Function

In addition to recommending stronger enforcement efforts in our previous report, we also recommended that the legislature adopt a multi-tiered system for licensing bingo operators. This system would focus DOR's enforcement efforts on the larger bingo operations that report higher gross receipts and, therefore, have greater opportunities to gain from improper use of such funds.

Senate Bill 1055 recently enacted by the Legislature and signed by the Governor on May 25, 1988 established a multi-tiered licensing structure based on the recommendations from our previous report. This legislation changes the current system of two types of licensees to a system with three classes of licenses, with different reporting and tax requirements.

In addition to its multi-tiered approach to licensing, the new law also mandates that all bingo in lieu taxes and license fees be deposited in the State General Fund. Previously, DOR retained in the Bingo Administration Fund all of the small game tax and half of the large game tax, to cover administration of bingo licensing and enforcement. The remainder was then deposited in the General Fund.

Organizational Placement of the Bingo Function

The organizational placement of the bingo function remains an unresolved issue at DOR. Placement of the Bingo Section, both in terms of where it should be located within DOR and whether it should be moved out of DOR, continues to be discussed.

Since our last audit in 1985, the Bingo Section has been moved four times within DOR's organizational structure. The Bingo Section was part of the Taxpayer Services Division at the time of our 1985 audit. In February 1986 the section was moved to the Taxation Division, and was transferred to the Revenue Enforcement and Adjustment Division (READ) in July 1986. During our current audit, the Bingo Section was moved in January 1988 to the Director's Office and most recently, in May 1988, has been added to the newly created Taxpayer Support and Education Services Division.

DOR has considered splitting up the separate functions of the Bingo Section, assigning each to a different DOR area. Several concerns have been raised about the problems this might create. According to the Bingo administrator, the Attorney General has argued that separating the functions of the Bingo section would jeopardize its status as a criminal justice agency. This status allows the section to share information with other law enforcement agencies and is, in the opinion of the administrator, crucial to effective enforcement. Further, the Bingo administrator has stated that separating the licensing and investigation functions would negatively impact background investigations of applicants.

In addition, the feasibility of moving at least the enforcement responsibilities of this section to the Department of Public Safety continues to be considered. As we reported in our previous audit, there are precedents in other states for such a move. The administrator of the Bingo Section has supported a transfer of the function to DPS, noting that this would allow use of the statewide DPS network for enforcement.

AREAS FOR FURTHER WORK

During the course of our audit we identified potential issues that we were unable to pursue because they were beyond the scope of our audit or we lacked sufficient time.

Could the field collections operations be made more efficient and effective?

Both DOR management and our limited work in the field collections section indicated that management and operational improvements may be needed. DOR management expressed concern that field collectors were spending too much time in the office, and not enough time in the field and working cases located outside the Phoenix metropolitan area. Our observations also noted that field collectors spent much time in the office rather than in the field. The Colorado Department of Revenue field collections supervisor stated that field collectors need to be in the office only one or two hours per day. Management also noted that the section has collected less revenues to date this fiscal year than last fiscal year. Our analysis showed field collections revenues dropped more than 20 percent in the period July through December 1987, as compared to the same period for the previous year.

In addition, our limited analysis of field collector inventories raised questions about case assignment strategy. Numbers of accounts assigned to collectors varied widely, ranging from 45 to 377 cases per collector. Because the field collection section had not yet fully implemented the automated collections system, field collections management is not fully able to track collector performance and ensure that highest dollar cases are worked first. Further audit work is needed to measure and analyze the time field collectors spend in the field, and to determine whether management is assigning cases properly and ensuring that the greatest dollar amounts are collected.

Should DOR phone collector salaries be increased?

DOR has difficulty retaining phone collectors because of low pay and lack of promotional opportunities. DOR phone collector salaries are low compared to other collector positions in both state and local government agencies in Arizona. DOR starts collectors at \$15,364, whereas most ADOT

and all DES collectors begin at \$17,156. The City of Phoenix collectors begin at \$19,219. A DOR internal study revealed that 50 percent of the 38 phone and field collectors terminating in Fiscal Year 1985-86 left because of low pay or lack of career advancement. Our 1985 audit also raised the issue of low pay and lack of career opportunities. Further audit work is needed to determine the impact of lower collector salaries and lack of a career path on turnover and productivity.

Should DOR establish mandatory increased enforcement actions at some point during the collections process?

Currently, DOR collectors may not be consistently exercising increased enforcement authority (levying a taxpayer's wages or bank account or putting a lien on property). Some accounts we examined could have been levied at several different points according to DOR guidelines but were not (see Finding III, pages 21 through 22). Both the IRS and Colorado have mandatory levys at certain stages in the collections process. The IRS automatically levys delinquent taxpayers who have not responded to final billing notices. According to an IRS official, these taxpayers who previously ignored billing notices are motivated by the impending levy to contact the IRS to arrange payment in lieu of the levy. Colorado will institute garnishment proceedings or seize property if a taxpayer does not respond to collection attempts. Further audit work is needed to determine whether DOR's current increased enforcement actions are adequate, and whether mandatory enforcement would increase taxpayer willingness to arrange for payment of delinquent taxes.

Should DOR staff its Tucson office to provide service to walk-in taxpayers?

DOR has not allocated any general inquiry staff to service walk-in taxpayers in its Tucson office. In contrast, the Phoenix office has a walk-in taxpayer office within the Information and Legislative Services Section. By default, the Tucson billing inquiry staff handle taxpayer needs. However, according to the billing inquiry administrator, they performed this function in lieu of doing their own work, resulting in an inventory backlog in 1987. Tucson billing inquiry staff had to transfer approximately 2,500 taxpayer billing inquiries to the Phoenix office to be worked. Further audit work is needed to determine if DOR needs additional staff in Tucson to service walk-in taxpayers.



ROSE MOFFORD
GOVERNOR

ARIZONA DEPARTMENT OF REVENUE

1600 WEST MONROE • PHOENIX, ARIZONA 85007

July 26, 1988

PAUL WADDELL
ACTING DIRECTOR

Douglas R. Norton
Auditor General of Arizona
2700 North Central, Suite 700
Phoenix, Arizona 85004

Dear Mr. Norton:

We have reviewed the draft report of the performance audit of the Department of Revenue, collection and taxpayer services functions.

I was pleased with the recognition given for the substantial progress made to date. It is worth mentioning that most of the improvements, such as the automated collection system (CACS) and increased use of terminals were funded out of improvement made in operations rather than budget issues.

The attached responses are offered to the findings and recommendations in your report.

Sincerely,

A handwritten signature in cursive script that reads "Paul Waddell".

PAUL WADDELL
Acting Director

FINDING I

DOR COULD INCREASE PHONE COLLECTIONS REVENUES BY AT LEAST \$5 MILLION BY FURTHER IMPROVING COLLECTION METHODS.

- * Significant improvement has been made since the 1985 audit.
- * Autodialing system could increase collection revenues by \$5 million.
- * Automated financial statement review and extended hours could increase efficiency.

DOR is pleased that the progress made in the last three years was recognized.

We agree there is a potential for increased productivity in our phone collections unit with the addition of an autodialing system. We have prepared a budget issue for such system for inclusion in our FY 89/90 budget request.

We are also preparing a budget issue for the automated financial statement capability. We will, however, study the potential of this feature more in depth prior to the budget hearings to verify that the estimated productivity gains will be realized. The process requires a collector to gather more information while on the phone, thus increasing the time spent per call. Since much of the information requested will not be readily available at the taxpayer's desk when we call, there is the potential for a substantial increase in the call time. We will have to develop a test to determine if the net result, in our situation, increases or decreases the collector productivity.

As noted, the Department has on several occasions tested the concept of after hours or extended hours collections. On the surface, it is very attractive in that it also provides better utilization of equipment. In every case when the Department tried this approach, however, the results have been a reduction in productivity. The Department is planning a pilot program on extended hours utilizing new employees during the fiscal year.

FINDING II

DOR COULD COLLECT AT LEAST \$4 MILLION IN ADDITIONAL REVENUES IF UNLOCATED ACCOUNTS WERE WORKED MORE AGGRESSIVELY.

- * It should devote more staff to skip tracing.
- * It should develop automated skip-tracing procedures.
- * It should form a skip-tracing unit.

DOR agrees that there is a potential for additional revenues if skip-tracing is given more emphasis. As a result, we have already consolidated activities to create a separate 9-person skip-trace unit. We are working with ADOT to install a data link to provide access to the MVD files, are working with the IRS on an extract program and will be evaluating outside vendor potential during the fiscal year.

FINDING III

DOR STAFF NEEDS TO STRENGTHEN SUPERVISION AND TRAINING OF COLLECTION STAFF.

- * Some collectors do not meet DOR Standards of Performance.
- * Supervisors should increase their review of monitoring tools.
- * Training can be strengthened.

DOR agrees that there have been substantial variances in performance. That is due to a number of factors besides supervision and training, however. First, the introduction of the new automated collection system last fiscal year completely changed how collection worked. The vendor that sold us the software warned that typically such a change is hard on staff. Their experience is that it takes months before the effect of the change occurs. They also alerted us that their clients often experience a very high turnover in staff, as many collectors used to a manual system can't adopt to the computerized approach. In addition, standards were developed before we had a chance to bring the new system up and were designed to make staff stretch to accomplish them. Finally, the Department has had substantial difficulty recruiting quality employees. Often we found that, as fast as we trained them, they left for higher paying jobs elsewhere. All these factors contribute to a wide range in performance.

DOR has recently reorganized the collection function again, to remove the accounts receivable and taxpayer service functions. The remaining activities that report to a single administrator are all pure collections functions. It is believed that both the reduction in size of the unit and purification of function will result in improved supervision. DOA has just agreed to allow us to hire at a higher entrance salary and create a career ladder. These steps should allow us to improve the quality of our recruitment program and at the same time enable us to retain our more productive employees.

DOR has already taken steps to improve the collector training program. We would be remiss, however, if we failed to point out that substantial new collector training was developed and provided in the last 18 months. With the implementation of the CACS System, every collector received a block of 40 hours of training. Many required additional tutorial training to become proficient. The new program, implemented 1-1-88, will provide 132 hours of formal training per collector (almost 3-1/2 weeks). The prior program provided 79 hours of formal training. In addition, VCR equipment has been acquired so that more of this training can be offered on interactive workstations as needed, rather than having to wait for enough new employees to make up a class. That program, together with OJT planned, will allow new employees to complete the entire training in a 12-week period. Total new training program development will be completed by 1989. With the implementation of the "talk off" program and other improvements made in collection training, we feel our program will be equal to that which is utilized by the IRS.

Finally, DOR has added a Collection Supervisor III position which will be specifically dedicated to collector review and act as the unit's Quality Assurance Officer.

FINDING IV

TAXPAYER SERVICES HAS GENERALLY IMPROVED; HOWEVER, DELINQUENT BILLING INQUIRIES ARE STILL NOT RESOLVED IN A TIMELY MANNER.

- * DOR has made substantial improvements in its taxpayer service areas.
- * Improvements need to be made to AMS to:
 - Improve management
 - Improve training
 - Create a career path
- * Classifications for taxpayer technicians should be reviewed for possible upgrade.

DOR is pleased that the report recognized the substantial improvement made in the last three years. Further improvement has been made in the last six months which has reduced response times appreciably, and we will be reopening a walk-in office for taxpayer assistance in Tucson.

Care must be taken when analyzing response times. While it is true that additional training and improved turnover rates will help, these are not the only reasons for the response time being excessive. It was pointed out to the auditors that the biggest factor was the size of the caseload. That is a function of the number of inquiries and the staff size. That equation can be

affected by actions which reduce the number of inquires, change the staffing or improve the organization. More aggressive collection results in more inquires, for example. In June, the Department pulled the AMS function out of the Collection area and combined it with ILS. This move allows the administrator of the combined work force the flexibility to shift resources as required, from a pool of commonly trained staff.

DOA has just agreed to raise the entry level pay and provide a career ladder for taxpayer technicians. That, coupled with the improved working conditions in the new DOR building, should result in both an increase in productivity and a reduction in turnover.

The core curriculum in training for this staff was 95 hours. It has been increased to a 161-hour program. The remaining key ingredient is to provide a vehicle to insure the training is taken in a timely manner. To assist in that effort, most of the material will be available in interactive VCR presentations so that personnel do not have to wait for classes to become large enough to be scheduled.

Finally, it is important to note that the turnaround time on AMS cases has dropped substantially in the last six months. During this period the average time from receipt to reply dropped to 69 days, and we are currently at 42 days. (These averages were calculated based on data compiled on every case in the AMS inventory.)

BINGO FUNCTIONS

- * The only recommendations from the previous report not implemented was to fingerprint licensees.

DOR strongly disagrees with the recommendation to fingerprint licensees. As part of the application, operators must include people who will work the games. Most of these are volunteers, and it would be an unreasonable burden to require them to be fingerprinted each year. This is particularly so when it is recognized that DOR has only found one person with a criminal record who committed a crime related to bingo in the history of bingo administration.

APPENDIX
AMS PRODUCTIVITY ANALYSIS

Examination of weekly productivity records of AMS current staff for the past year showed that workers with more than six months experience averaged 1.27 hours to complete a case, while workers with more than six weeks but less than six months experience took an average of 1.81 hours to complete a case. Further, we found a statistically significant difference in productivity between these two groups. Estimated cases per week were computed for each group based on the standard of 25 hours of casework per week. This standard was derived from AMS time data. Based on this standard, the group with more tenure could respond to an average of 19.69 inquiries per week, while the less experienced group could respond to 13.81 inquiries each week. The 5.88 difference in the number of inquiries resolved means that the workers with more than six months tenure were 43 percent more productive than the group with less than six months tenure.

We used the formula below to compute the increase in the number of inquiry resolutions that resulted from reduced turnover. The formula assumes that AMS could reduce turnover to 50 percent from the current level of 131 percent and that vacant positions could be filled within one month. DOR management has stated that the latter is a reasonable goal.

(8 X 19.69 X 52) Eight workers producing at an average rate for workers with tenure of six months or more (19.69 cases per week) for 52 weeks
+(8 X 12.44 X 26) Eight new hires during the year (a result of 50 percent turnover) completing cases at the average rate for workers with less than six months tenure (12.44 cases per week) for 26 weeks
+(8 X 19.69 X 26) The same eight workers after they have reached six months tenure and are producing at the average rate for workers with six months or more tenure
-(34.4 X 19.69) The loss of eight top producing positions which remain vacant for 4.3 weeks each.

The difference between this projected number of resolved inquiries if turnover was reduced, and the actual number of inquiries resolved by AMS in 1987 (11,726), is 2,467 cases. The increase in the number of cases resolved represents a 21 percent gain in productivity, and would likely reduce the length of time taxpayers must wait before workers start to resolve their inquiries.