# Arizona Department of Revenue
## Transaction Privilege Tax Support and Education Services

Department should improve call centers' quality assurance processes and internal collaboration on taxpayer education and outreach efforts

Performance Audit

March 2019
Report 19-103

**Lindsey A. Perry**
Auditor General

ARIZONA
**Auditor**General
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## The Joint Legislative Audit Committee

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March 13, 2019

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. Carlton Woodruff, Interim Director
Arizona Department of Revenue

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Arizona Department of Revenue—Transaction Privilege Tax Support and Education Services*. This report is in response to a September 14, 2016, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona Department of Revenue agrees with all of the findings and plans to implement all of the recommendations.

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General

**ARIZONA**
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Performance Audit
Report Highlights
March 2019

# Arizona Department of Revenue
## Transaction Privilege Tax Support and Education Services

**CONCLUSION:** This performance audit focused on the Arizona Department of Revenue's (Department) provision of support and education services related to its administration of the transaction privilege tax (TPT) on behalf of the State, counties, and cities and towns. TPT is a tax imposed on a seller for the privilege of doing business in the State and is commonly referred to as a sales tax because it is usually passed on to the buyer. The Department provides customer service to TPT taxpayers through its call centers, which taxpayers can call to ask questions and receive information from customer service representatives (CSRs); Education and Outreach Unit (EDU), which provides information and education to help taxpayers comply with tax laws; and a City Services Team (CST), which acts as a liaison between the Department and Arizona cities and towns. We found that the Department should further improve its call centers' quality assurance (QA) processes, improve EDU's collaborations with other Department units, and implement CST's plans for better managing cities' and towns' TPT questions.

## Department should further improve call centers' QA processes

The Department has established a QA process in each of its 3 call centers that provide TPT-related customer service—the main call center, the licensing call center, and the collections call center. These processes help to evaluate and monitor the quality and accuracy of customer service provided to taxpayers. We identified areas for improvement in all 3 call centers' QA processes.

| | Main call center | Licensing call center | Collections call center |
|---|---|---|---|
| Conducts QA evaluations of individual CSRs' customer service skills using a standardized checklist? | ✓ | ✓ | ✓ |
| Met its goal for the number of QA evaluations performed? | ✗ | ✓ | ✓ |
| Has an adequate tool for tracking and monitoring QA evaluation results to identify trends or areas for improvement? | ✓ | ✗ | ✓ |
| Has policies and procedures for addressing a CSR's low QA evaluation scores? | ✓ | ✓ | ✗ |
| Has policies and procedures for addressing situations when a CSR provides incorrect information to taxpayer? | ✗ | ✗ | ✗ |
| Has established performance metrics for call quality to identify opportunities for improvement? | ✗ | ✗ | ✗ |

### Recommendations

The Department should:
- For all 3 call centers, implement policies and procedures for situations when a CSR provides incorrect information to a taxpayer and establish call-quality performance metrics.

- For the main call center, use its QA evaluation tool to ensure that the call center meets its goal for the number of QA evaluations performed daily.
- For the licensing call center, adopt the main call center's more robust QA evaluation tool as planned.
- For the collections call center, develop policies and procedures that guide supervisors on how to address low QA evaluations scores with CSRs.

# EDU should improve collaborations with other Department units

According to EDU staff, EDU's collaboration with other Department units involves 2 primary methods to collect information: (1) receiving information from Department leadership regarding ways they may be able to help other units or (2) attending many of the Department's various weekly staff meetings to obtain input on how EDU may be able to further educate taxpayers. However, as of October 2018, EDU had not systematically assessed opportunities for further collaboration with other Department units or evaluated the effectiveness of its collaborative efforts. As a result, EDU may not be collaborating with units that are in a position to collect information that could inform its taxpayer education and outreach efforts

EDU has not assessed opportunities for further internal collaboration or evaluated its collaborative efforts' effectiveness.

and does not know whether specific collaborations are an effective use of staff time and resources. Finally, EDU has not documented its collaborative process, which would provide consistency for EDU staff on how and with whom to collaborate, the type of information that they should seek to obtain, and what they should do with that information.

## Recommendations

The Department's EDU should:
- Systematically review all Department units to identify potential opportunities for additional collaborations and obtain information that could inform its education and outreach efforts.
- Develop and implement a process to evaluate the effectiveness of its collaborative efforts.
- Document its collaborative process, including how and with whom to collaborate, the type of information to obtain, and what should be done with that information.

# CST should implement its plans for better managing cities' and towns' TPT questions

CST receives questions from cities and towns through email, phone, or other methods outside of its biweekly meetings with the cities and towns and responds to these questions. Prior to October 2018, CST used an Access database to track, monitor, and record resolutions for cities' and towns' questions. However, according to CST staff, that database was unreliable, resulting in data loss, data unreliability, and staff inability to generate accurate reports regarding questions asked and/or staff progress in addressing them. The Department began using a new database in October 2018 that allows CST staff to input city/town questions as staff receive them, which Department staff reported is backed up weekly. In

CST's prior database reportedly crashed 7 times between June 2017 and April 2018.

addition, CST management developed several specific management reports that will help them identify trends and areas for improvement, such as the number and type of questions broken out by city or town. However, as of October 2018, CST had not yet developed policies and procedures for using the new database or assessed how well it is working.

## Recommendations

The Department's CST should:
- Use its newly developed management reports to identify trends and areas for improvement.
- Develop and implement policies and procedures that address how CST staff receive, track, monitor, and respond to city/town questions, including time frames for doing so.
- Evaluate how the new database and management reports are working for CST and the cities and towns and adjust them as needed.

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The Office of the Auditor General has simultaneously released 2 performance audit reports of the Arizona Department of Revenue's (Department) administration of the transaction privilege tax (TPT) on behalf of the State and its cities and towns.[1] The first report (Report 19-102) focuses on the Department's processes for administering and enforcing TPT and provides additional background information on TPT and legislative reforms that have affected its administration. This second report (Report 19-103) focuses on the Department's provision of support and education services to TPT taxpayers and Arizona's cities and towns. A third report will address the statutory sunset factors.

## TPT Overview

TPT is a tax imposed on a seller for the privilege of doing business in the State. Because it is usually passed on to the buyer, this tax is commonly referred to as a sales tax. Various business activities are subject to TPT, such as retail sales and hotel/motel lodging. Each taxing jurisdiction (the State, counties, and cities and towns) is authorized to establish the associated tax rate for business activities subject to TPT. Sellers typically charge buyers a combined tax that includes the tax rates for each applicable taxing jurisdiction.

Legislative reform in 2013 (commonly referred to as TPT reform) required the Department to administer TPT on behalf of all Arizona cities and towns. Businesses that are subject to TPT, whether owed to the State or cities and towns, must first obtain a TPT license from and file returns with the Department. The Department is then responsible for distributing TPT collected on behalf of cities and towns to them (see Auditor General Report 19-102 for more information).

TPT reform also required cities and towns to annually pay the Department for administering TPT on their behalf. According to session laws passed each year from 2015 through 2018, the total amount paid by all cities and towns may not exceed $20,755,835 annually.[2] Although the Department receives the monies from this ongoing fee, those monies are offset by a reduction of the same amount in the Department's State General Fund appropriation.

## Customer service important in administering TPT

Because tax laws can be complex and difficult to understand, the Department provides customer service to address taxpayers' questions or concerns in order to help them comply with these laws. Both the Internal Revenue Service's and Arizona's Taxpayer Bill of Rights indicate that taxpayers are entitled to clear explanations of the laws and accurate answers to their questions.[3,4] They also state that taxpayers have the right to receive fair, prompt, courteous, and professional assistance from tax agencies. Further, according to a 2014 survey by McKinsey, citizens want fast, simple, and efficient customer service from government agencies.[5]

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[1] Arizona Revised Statutes (A.R.S.) §42-6102(A)(1) allows county excise taxes to be reported and paid with State TPT. Because this audit focused primarily on the Department's administration of TPT as affected by TPT reform—which did not impact the Department's administration of county excise taxes—the Department's administration of county excise taxes was not included in the audit's scope.

[2] See Laws 2015, Ch. 10, §21; Laws 2015, Ch. 323, §21; Laws 2016, Ch. 125, §18; Laws 2017, Ch. 312, §16; and Laws 2018, Ch. 283, §12.

[3] Internal Revenue Service. (2017). *Taxpayer Bill of Rights*. Washington, DC: U.S. Department of the Treasury.

[4] Arizona Department of Revenue. (2014). *Taxpayer Bill of Rights*. Phoenix, AZ.

[5] Baig, A., Dua, A., & Riefberg, V. (2014). *Putting citizens first: How to improve citizens' experience and satisfaction with government services*. New York, NY: McKinsey Center for Government.

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The Department provides customer service to Arizona taxpayers through its call centers, which taxpayers can call to speak with customer service representatives to ask questions and receive information. Additionally, in 2017, the Department created an Education and Outreach Unit, which provides information and education regarding many topics to help taxpayers comply with tax laws, and a City Services Team, which acts as a liaison between the Department and Arizona cities and towns. The remainder of this Introduction provides additional information about the call centers and these 2 Department units.

## Three Department call centers provide TPT customer service

The Department has multiple call centers that serve specific functions. The following Department call centers provide customer service to TPT taxpayers. Table 1 shows the average number of total daily TPT-related calls and the staffing levels for these call centers in September 2018. Specifically:

- **Main call center**—This call center provides customer service for all tax types and is generally the primary point of contact for most taxpayers. According to Department records, the most common TPT-related issues that taxpayers call about include payment inquiries and questions on how to fill out Department forms.

- **Licensing call center**—This call center provides customer service related to TPT licensing issues, such as checking the status of a license and helping taxpayers with suspended online license applications.

- **Collections call center**—This call center serves TPT taxpayers who have questions about collections services. Typical taxpayer questions include how they can (1) set up a payment plan for outstanding taxes owed, (2) pay their full tax amount online, and (3) learn more about why a payment was not yet processed.

**Table 1**
**Average number of total daily TPT calls and staffing levels for call centers providing TPT customer service**
**September 2018**
(Unaudited)

|  | Main call center | Licensing call center | Collections call center |
|---|---|---|---|
| Average total daily TPT calls | 741 | 61 | 174 |
| Total number of staff | 52 | 11 | 35 |

Source: Department-provided information for staffing levels and the number of unique calls received by each call center.

## Department has taken steps to improve timeliness of call center service

As part of a strategic initiative to improve customer service, the Department hired a contractor in February 2016 to help oversee various aspects of the call centers, including establishing and maintaining timeliness performance measures (see textbox).[6] The Department has also implemented several processes to help monitor and improve call center timeliness, including:

- Monitoring daily timeliness performance-measure reports that are shared with Department leadership and other Department units.

**Timeliness performance measures**

**Average speed of answer**—How quickly call center staff answer a call once the taxpayer has selected his/her final choice and is transferred from the automated menu.

**Average handle time**—The average duration of calls answered.

**Abandon rate**—The rate at which taxpayers hang up and/or abandon the call. Taxpayers may abandon calls for different reasons, including dropped calls, long wait times, and obtaining the information needed from the automated messages.

Source: Auditor General staff review of Department documents.

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[6] According to the Department, prior to hiring the contractor, the call centers recorded but did not use data for performance measurement or monitoring.

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- Supervising calls in real time and assisting customer service representatives with calls before they become too lengthy.

- Using training and coaching to educate call center staff to provide better/faster customer service.

- Holding regular staff meetings to discuss timeliness and steps to improve timeliness.

- Establishing an automated process that forwards a call to an available call center staff member within a few seconds of the call being placed.[7]

- Posting visual reminders of its average-speed-of-answer goal (60 seconds or less) at work stations, call center entrances, and other strategic places around the 3 call centers.[8]

Through these efforts, the Department achieved its average-speed-of-answer goal of 60 seconds or less for TPT-related calls—which has been a focus for the Department—for the first time in April 2018 and generally met the goal through August 2018 (see Figure 1). See Finding 1 (pages 7 through 9) for our finding and recommendations related to the call centers' quality assurance processes.

**Figure 1**
**TPT average speed of answer (in minutes:seconds) by month**
**January 2016 through August 2018**
(Unaudited)
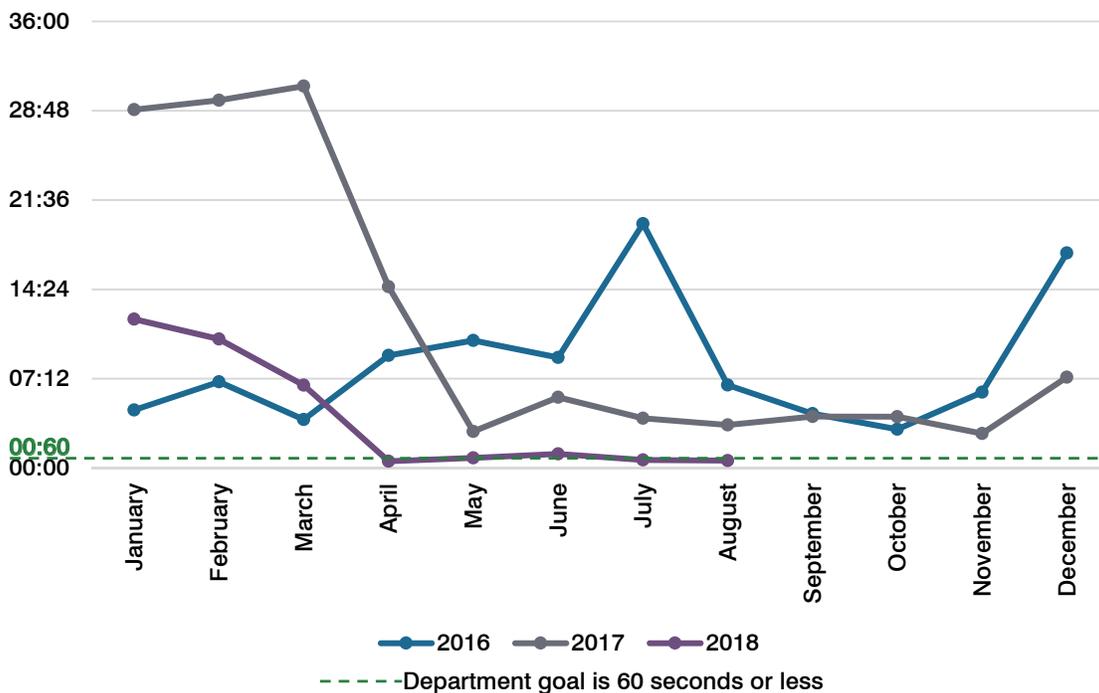


Source: Department-provided information.

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[7]  We observed through mystery shopper calls to the main call center that, when a taxpayer calls the main call center, an automated recording is played that includes several menu options geared at helping the call to be transferred to the appropriate call center agent. Once the taxpayer selects the last menu option, the Department uses an automated process to forward the call to an available call center agent within a few seconds.

[8]  According to industry best practices, each call center must account for its distinct business context, goals, and cost/resource constraints as they evaluate operations, develop performance metrics, and set targets for improvement. Performance metrics should be realistic and achievable and support the call center's business goals. See Strategic Contact, Inc. (n.d.). *Contact center "best practices*." Beaverton, OR. Retrieved 9/25/2018 from https://www.strategiccontact.com/pdf/Contact-Center-Best-Practices-2014.pdf.

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# Department provides TPT education and outreach services

Beginning in October 2015, the Department has emphasized taxpayer education as a means of promoting taxpayer compliance for all tax types in addition to enforcement activities such as audits and collections. As part of this emphasis, the Department established the Education and Outreach Unit (EDU) in March 2017 to help increase taxpayer compliance through training, communications, and taxpayer education and outreach activities.[9] EDU provides these services for all tax types, including TPT (see textbox for examples of EDU's major initiatives and activities).

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**EDU's major initiatives and activities**

**Ambassador Program—**This program's purpose is to train Department staff and city/town representatives on presenting Department-approved information, such as business tax basics, to taxpayers. As of September 2018, the program had been tested with 1 city's staff and was still in development.

**Redesigned website—**The Department's redesigned website includes a page dedicated to EDU's taxpayer education services, which include online tutorials, a calendar of events, and a link to request a Department speaker.

**Workshops and seminars—**EDU conducts workshops and seminars on topics that address taxpayers' needs, such as workshops on residential-rental-TPT-filing instructions for property management companies.

**Public events—**EDU hosts various public events, such as a shred-a-thon and roadshows, that provide opportunities for the public to interact with Department management and staff, ask questions, and learn about tax issues.

Source: Auditor General staff review of Department documents.

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EDU has implemented a process to evaluate and improve its activities/events. Specifically, after each event, EDU compiles a post-event report, which outlines the event's goals/objectives, the number of attendees, any handouts provided, presenters' event assessment, a summary of survey results and comments from attendees, and recommendations/next steps based on an overall assessment of the event. The intent of this report is to evaluate the event's effectiveness and adjust future events based on identified opportunities for improvement. See Finding 2 (pages 11 through 12) for our finding and recommendations related to EDU's collaboration with other Department units to inform its outreach efforts.

# City Services Team (CST) acts as liaison for cities and towns

Laws 2013, Ch. 255—commonly referred to as TPT reform—required the Department to administer TPT on behalf of all of Arizona's cities and towns. Cities and towns that administered their own TPT prior to this reform now rely on the Department to do so.

The Department established CST in May 2017 to respond to the cities' and towns' questions and other needs.[10] CST staff receive phone calls, emails, and other inquiries from cities and towns and provide responses. Examples of questions include requests for detailed information about a specific TPT distribution or inquiries about a taxpayer's TPT billing issues.[11] See Finding 3 (pages 13 through 14) for our finding and recommendations related to CST's management of cities' and towns' TPT questions.

In addition, CST conducts biweekly business meetings with cities and towns to provide a forum for regularly interacting with the Department. Issues raised in these meetings include administrative questions, such as when

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[9] As of September 30, 2018, EDU comprised 3 full-time employees, including 1 supervisor and 2 staff.

[10] As of September 30, 2018, CST comprised 7 full-time employees, including 1 manager and 6 staff.

[11] CST staff record cities' and towns' questions in a database. However, because the database crashed several times, resulting in lost data, the database was unreliable; therefore, we could not determine a complete number of questions received (see Finding 3, page 13, for more information).

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a specific meeting will occur and requests for updated forms, and city-/town-specific questions, such as what the correct address is for a taxpayer in that city or town. CST staff generally try to answer these questions in the meeting but may need to later follow up with cities and towns.

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# Department should further improve call centers' quality assurance (QA) processes

## Call centers have established QA processes

The Department has established a QA process in each of its 3 call centers that provide TPT-related customer service—the main call center, the licensing call center, and the collections call center. The purpose of these processes is to evaluate and monitor the quality and accuracy of customer service provided to taxpayers. Each call center's process varies, and 2 of the call centers' processes were improved or implemented during the audit. Although the call centers' processes are generally consistent with industry best practices, we identified opportunities for further improvement. Our evaluation of and recommendations for each call center's process are described in the remainder of this finding.

## Main call center improved its QA process during the audit but can further improve

Consistent with best practice, the main call center's QA process includes conducting QA evaluations of individual customer service representatives (CSRs) to assess the quality and accuracy of customer service provided on specific calls.[12] These evaluations involve using a standardized checklist to rate a CSR's skills in areas such as providing customers with correct and relevant information, using appropriate greetings and other call scripts, capturing customer data, and being courteous and professional, which also aligns with best practice.[13,14] In May 2018, the main call center began providing ongoing training to CSRs and their supervisors to help ensure consistency in using the checklist and to help establish performance expectations. In July 2018, the main call center developed a written procedure identifying actions that supervisors can take, such as coaching or monitoring, to address a CSR's low QA evaluation scores, as well as time frames for following up with the CSR.

Further, in September 2018, the main call center developed and implemented a new tool that improved its ability to track and monitor QA evaluation results to identify trends or areas for improvement. For example, the tool can summarize evaluation scores by individual, supervisory team, and all main call center staff for different time periods and for each skill area on the checklist. Because this tool is new, main call center management indicated that they would be monitoring the tool and making modifications to it, as needed.

Although the main call center improved its QA process during the audit, we identified some additional areas for improvement:

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[12] International Customer Management Institute (ICMI). (2011). *Seven metrics to watch for call center success*. Retrieved 4/30/2018 from https://www.icmi.com/Resources/Metrics/2011/02/Seven-Metrics-to-Watch-for-Call-Center-Success.

[13] ICMI, 2011.

[14] International Finance Corporation. (n.d.). *Measuring call center performance—Global best practices* [PowerPoint slides]. Retrieved 4/30/2018 from https://www.ifc.org/wps/wcm/connect/75ce96004cf85d4f8752c7f81ee631cc/Tool+9.4.+Measuring+Call+Center+Performance.pdf.

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- **Meeting QA evaluation goals**—During the audit, the main call center did not meet its goal of performing 25 QA evaluations per day.[15] Specifically, according to main call center management, it averaged 14 QA evaluations per day between January and July 2018.[16] Main call center management explained that it did not meet this goal primarily because of turnover in the staff position responsible for performing QA evaluations. The new QA tool allows main call center management to monitor the number of evaluations completed each day and could be used to help ensure that the main call center meets its goal.

- **Addressing incorrect information provided to taxpayers**—The main call center has developed but not implemented procedures for its supervisors to address situations when a CSR provides incorrect information to a taxpayer. For example, when reviewing examples of QA evaluations and other documentation to understand the process, we identified at least 2 instances where a CSR provided incorrect information to a taxpayer, as reported in the documents. In 1 instance, a taxpayer asked if he needed to update his TPT license information by adding a new location. The CSR erroneously stated that the taxpayer did not need to update the account but, instead, would need a new TPT license for the new location. However, the CSR should have updated the account as requested. In the second instance, a taxpayer requested that the CSR reset a password for AZTaxes.gov, the Department's online portal that handles electronic tax return filings and payments for several tax types. The CSR replied that he could not help with that. However, the CSR could have sought additional help and reset the password for the taxpayer.

  According to main call center management, sometimes the supervisor will evaluate the effects of the incorrect information and, if determined to be critical, may call the taxpayer back. However, there is no guidance for supervisory staff on how to determine the severity of the inaccurate information provided and what factors should be considered in deciding whether to call a taxpayer back. Both the Internal Revenue Service's and Arizona's Taxpayer Bill of Rights indicate that taxpayers are entitled to clear explanations of the laws and accurate answers to their questions.[17] Without correct information, taxpayers may not have the information they need to comply with tax requirements.

- **Establishing performance metrics for call quality**—Although the Department has developed Department-wide performance metrics related to timeliness for its call centers (see the Introduction, pages 2 through 3), it has not developed performance metrics related to quality, either Department-wide or for individual call centers. For example, there is no daily QA report that is shared with multiple divisions in the Department as there is for timeliness. Call center best practices recommend tracking quality as a high-level, center-wide metric to identify opportunities for improvement.[18,19]

## Licensing call center implemented its QA process in August 2018 but can also improve

Similar to the main call center, the licensing call center's QA process includes using a checklist to evaluate individual CSRs' performance. The licensing call center's goal is to conduct 2 evaluations per CSR per month, which it met for August 2018. The licensing call center also implemented a tool for tracking and monitoring QA evaluation scores; however, this tool is not as robust as the main call center's new tool. For example, it does not compile and track QA evaluation results at the individual skill level, such as whether the CSR provided accurate information to the taxpayer or was courteous and professional during the call. As a result, the licensing call center

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[15] According to call center management, by conducting 25 QA evaluations per day, each CSR receives an average of 5 to 8 QA evaluations per month. Additionally, although the main call center's goal was 25 QA evaluations per day for the months we reviewed, call center management indicated that this goal can vary based on factors such as the number of staff and the number of calls.

[16] We relied on main call center management to provide information regarding compliance with its QA evaluation goal because the main call center's data was incomplete and/or missing due to staff turnover.

[17] Internal Revenue Service. (2017). *Taxpayer Bill of Rights*. Washington, DC: U.S. Department of the Treasury; Arizona Department of Revenue. (2014). *Taxpayer Bill of Rights*. Phoenix, AZ.

[18] ICMI, 2011.

[19] Strategic Contact, Inc. (n.d.). *Contact center quality monitoring best practices*. Retrieved 9/25/2018 from https://www.strategiccontact.com/pdf/Quality-Monitoring-Best-Practices-2014.pdf.

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cannot use the tool to identify trends or areas for improvement. However, main call center management reported plans to roll out its new tool to the licensing and collections call centers after any needed modifications are completed, and licensing call center management indicated they plan to implement the new tool. The licensing call center's QA process also includes guidance for how supervisors should address a CSR's low QA evaluation scores through performance-improvement plans.

However, similar to the main call center, the licensing call center lacked policies and procedures that address situations when a CSR provides incorrect information to a taxpayer, and it had not established call-quality performance metrics.

# Collections call center can similarly improve its process

The collections call center's QA process also includes using a checklist to evaluate individual CSRs. Its goal is to conduct 3 evaluations per CSR per month, which it met for January through May 2018. The collections call center also uses a tool for tracking and monitoring QA evaluation scores by individual CSR and for all collections call center staff. According to collections management, this information allows supervisors to evaluate and improve overall call quality.

However, the collections call center lacked policies and procedures for how supervisors should address a CSR's low QA evaluation scores with staff. Instead, according to collections call center management, supervisors follow their internal practice of conducting weekly 1-on-1 meetings with their staff to discuss any immediate concerns and overall performance. Additionally, similar to the other call centers, the collections call center lacked policies and procedures that address situations when a CSR provides incorrect information to a taxpayer, and it had not established call-quality performance metrics.

## Recommendations

The Department's main call center, licensing call center, and collections call center should:

1. Develop and implement policies and procedures to address situations when a CSR provides incorrect information to a taxpayer, including guidance for what factors should be considered when deciding whether to call a taxpayer back and the procedure for doing so.

2. Establish center-wide performance metric(s) for tracking and monitoring overall call quality.

The main call center should:

3. Continue to implement and modify, as needed, its new QA evaluation tool.

4. Use its QA evaluation tool to help ensure that it meets its QA evaluation goal and to identify trends or areas for improvement.

The licensing call center should:

5. Continue to follow its new QA process.

6. Implement its plan to adopt the main call center's QA evaluation tool and use it for monitoring evaluation results to identify trends or areas for improvement.

The collections call center should:

7. Develop and implement policies and procedures that include guidance for supervisors on how to address low QA evaluation scores with CSRs.

   **Department response:** As outlined in its response, the Department agrees with the finding and will implement the recommendations.

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# Education and Outreach Unit (EDU) should improve collaborations with other Department units

## EDU provides education and outreach efforts to help taxpayers comply with tax requirements

As discussed in the Introduction (see page 4), EDU was established in March 2017 to help increase taxpayer compliance with tax laws through training, communications, and taxpayer education and outreach activities. To effectively focus its efforts on the most common or pressing taxpayer needs, EDU needs to understand areas of taxpayer interest or concern and identify common challenges or trends to complying with tax requirements.[20] EDU uses various methods to directly obtain input from taxpayers, such as distributing surveys after its trainings and events, and using data analytics regarding how taxpayers use information on the Department's website.

However, because not all taxpayers complete these surveys or use the Department's website, EDU has also begun obtaining information that other Department units already collect about taxpayers, such as common mistakes taxpayers make when filing a tax return. These collaborative efforts and opportunities for further improvement are discussed in the remainder of this finding.

## EDU collaborates with other Department units to inform its efforts

According to EDU staff, EDU's collaboration with other Department units involves 2 primary methods to collect information. Specifically, EDU staff either (1) receive information from Department leadership regarding ways they may be able to help other units or (2) attend many of the Department's various weekly staff meetings to obtain input on how EDU may be able to further educate taxpayers (see textbox for examples of these meetings). According to EDU staff, they attend these meetings to gather information regarding taxpayer questions, needs, and/or behaviors and, as needed, can collaborate with Department staff in the various units to obtain further information/details. EDU staff reported that,

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**Examples of weekly meetings EDU staff attend**

**Unit meetings (known as huddles)**—Each Department unit meets to discuss unit goals, performance metrics, and ways to continuously improve. As of October 2018, EDU reported that its staff attend 6 Department units' meetings, including the City Services Team, Processing Unit, and Communications Unit.

**Deputy assistant director (DAD) meetings**—The DADs of each unit in the Department's Education and Compliance Division, which includes EDU, meet to discuss issues pertinent to their division and to update each other on specific projects.

**Cross-divisional meetings**—Leaders from different Department divisions meet to discuss any immediate problems and share project updates to direct future work.

**Department executive leadership team meetings**—Department executives meet to discuss functional areas and prioritized projects. These meetings focus on progress made, potential obstacles for completing projects on time, and next steps.

Source: Auditor General staff observation and review of Department-reported information.

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[20] This audit focused on EDU's TPT-related education and outreach efforts. However, because EDU serves all taxpayers and all tax types, the recommendations from this finding could apply to all tax types, not just TPT.

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once information is obtained, they use it to determine whether they can either revise existing educational materials or develop new trainings or communications to educate taxpayers.

For example, during the audit, Department leadership directed EDU to start collaborating with the Processing Unit, which processes tax returns, to learn more about common mistakes taxpayers make when filing a TPT tax return. EDU requested information about common taxpayer errors from the Processing Unit and incorporated some of that information into its business tax basics training, which is presented monthly to interested taxpayers. As of August 2018, EDU requested that the Processing Unit provide this information monthly.

## EDU has not systematically assessed opportunities for further collaboration

According to EDU staff, its collaborations have primarily resulted from (1) Department leadership or other Department staff approaching EDU with ideas for collaboration or (2) EDU staff learning about information in various meetings that might be useful to them. However, as of October 2018, EDU had not performed a systematic review of all Department units to assess which units might have relevant information.

As a result, EDU may not be collaborating with units that are in a position to collect information that could inform its education and outreach efforts. For example, before October 2018, EDU was not included in the distribution list for the call centers' daily performance measures reports. These reports include daily updates regarding the most common taxpayer questions/reasons for calling the Department—information that could be useful to EDU's activities. In addition, EDU staff did not attend the weekly staff meetings for the main call center and collections call center, although they reported attending the weekly staff meetings for the licensing call center. In October 2018, after we asked EDU staff about whether they collaborated with the main call center, EDU staff requested to be added to the main call center's distribution list for its daily performance measure reports and indicated that they planned to begin meeting weekly with main call center management.

Finally, as of October 2018, EDU had not developed a systematic process for evaluating the effectiveness of its collaborative efforts with other Department units. As a result, EDU does not know whether specific collaborations are an effective use of staff time and resources.

## EDU has not documented collaborative process

A documented process would provide consistency for EDU staff on how and with whom to collaborate, the type of information that EDU staff should seek to obtain, and what EDU staff should do with the information once it is obtained. Additionally, documenting the requirements and expectations for the process could help identify gaps and improvement opportunities. Also, a documented process would help retain institutional knowledge when EDU staff leave Department employment and provide guidance for training new staff. EDU staff reported that in October 2018, they planned to start mapping (i.e., documenting and further refining) its process for developing educational materials, which will include steps pertaining to its collaboration with other Department units.

### Recommendations

The Department's EDU should:

8.  Perform a systematic review of all Department units to identify potential opportunities for additional collaborations and obtain information that could inform its education and outreach efforts.

9.  Develop and implement a process to evaluate the effectiveness of its collaborative efforts.

10. Document its process for collaborating with other Department units, including how and with whom to collaborate, the type of information that EDU staff should obtain, and what they should do with the information once they obtain it.

    **Department response:** As outlined in its **response**, the Department agrees with the finding and will implement the recommendations.

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# City Services Team (CST) should implement its plans for better managing cities' and towns' TPT questions

## CST receives and responds to questions from cities and towns

As discussed in the Introduction (see pages 4 through 5), CST acts as a liaison between the Department and Arizona's cities and towns and is responsible for responding to their TPT-related questions. CST receives these questions most often through email, phone, or other methods outside of its biweekly meetings with the cities and towns. Cities and towns ask questions on various topics, including TPT licensing, taxable activities in different jurisdictions, requests to process TPT audits and billings, city/town TPT distributions, or taxpayer inquiries. CST staff are responsible for receiving the questions, researching the answers, and reporting back to the cities and towns.

## CST's prior method for managing city/town questions was unreliable

During the audit, CST was exploring a new method for managing cities' and towns' questions more efficiently and effectively. Prior to October 2018, CST used an Access database to track, monitor, and record resolutions for cities' and towns' questions. However, according to CST staff, that database was unreliable and crashed 7 times between June 2017 and April 2018, resulting in data loss and staff inability to generate accurate reports on questions asked and/or staff progress in addressing them. For some cities and towns, it resulted in untimely responses to their questions.

Further, CST staff reported that the database's unreliability contributed to cities and towns having a poor perception of the Department's ability to resolve questions and/or provide customer service, potentially impacting the relationship between CST and cities and towns. For example, in April 2018, CST sent out a survey to cities and towns to gauge their perception regarding CST's current state. Of the 75 responses received, 32 responses, or 42 percent, indicated that questions were not resolved in a timely manner. According to CST staff, they believed those responses were directly related to the database issues.

## CST began using new database to manage city/town questions in October 2018

The Department developed a new database that allows CST staff to input city/town questions as staff receive them. After CST staff enter a question into the database, an auto-generated ticket number and an email that serve as a receipt are forwarded to CST staff, who then forward them to the city or town to let it know the question has been received. According to Department staff, this new database is backed up weekly.

In addition, as of October 26, 2018, CST management had developed several specific management reports that will help them identify trends and areas for improvement, such as the number and type of questions broken out by city or town and the time it takes CST staff to fully address questions and report back to the cities and towns.

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As of October 2018, CST had not yet developed policies and procedures for using the new database and any additional expectations for managing city/town questions. In addition, because this database is new, CST had not yet assessed how well it is working.

## Recommendations

The Department's CST should:

11. Use its newly developed management reports to identify trends and areas for improvement.

12. Develop and implement policies and procedures that address how CST staff receive, track, monitor, and respond to city/town questions, including time frames for doing so.

13. Evaluate how the new database and management reports are working for CST and the cities and towns and adjust them as needed.

    **Department response:** As outlined in its **response**, the Department agrees with the finding and will implement the recommendations.

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# Auditor General makes 13 recommendations to the Department

The Department's main call center, licensing call center, and collections call center should:

1. Develop and implement policies and procedures to address situations when a CSR provides incorrect information to a taxpayer, including guidance for what factors should be considered when deciding whether to call a taxpayer back and the procedure for doing so.

2. Establish center-wide performance metrics for tracking and monitoring overall call quality.

The main call center should:

3. Continue to implement and modify, as needed, its new QA evaluation tool.

4. Use its QA evaluation tool to help ensure that it meets its QA evaluation goal and to identify trends or areas for improvement.

The licensing call center should:

5. Continue to follow its new QA process.

6. Implement its plan to adopt the main call center's QA evaluation tool and use it for monitoring evaluation results to identify trends or areas for improvement.

The collections call center should:

7. Develop and implement policies and procedures that include guidance for supervisors on how to address low QA evaluation scores with CSRs.

   (See Finding 1, pages 7 through 9, for more information.)

The Department's Education and Outreach Unit (EDU) should:

8. Perform a systematic review of all Department units to identify potential opportunities for additional collaborations and obtain information that could inform its education and outreach efforts.

9. Develop and implement a process to evaluate the effectiveness of its collaborative efforts.

10. Document its process for collaborating with other Department units, including how and with whom to collaborate, the type of information that EDU staff should obtain, and what they should do with the information once they obtain it.

    (See Finding 2, pages 11 through 12, for more information.)

The Department's City Services Team (CST) should:

11. Use its newly developed management reports to identify trends and areas for improvement.

12. Develop and implement policies and procedures that address how CST staff receive, track, monitor, and respond to city/town questions, including time frames for doing so.

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13. Evaluate how the new database and management reports are working for CST and the cities and towns and adjust them as needed.

(See Finding 3, pages 13 through 14, for more information.)

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## Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Department pursuant to a September 14, 2016, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq. This audit addresses the Department's provision of support and education services to TPT taxpayers and Arizona's cities and towns.

We used various methods to study the issues addressed in this performance audit. These methods included interviewing Department staff and stakeholders, and reviewing Department-provided documentation, including policies, procedures, training documents, and the Department's *Strategic Plan FY 2018-2022*. In addition, we used the following specific methods to meet the audit's objectives:

- To evaluate the Department's 3 call centers that provide TPT-related customer service, we:

  - Reviewed best practice literature and internal Department criteria pertaining to call center customer service timeliness, accuracy, and quality, as cited throughout the report.

  - Reviewed Department-provided information pertaining to the average number of TPT-related calls and staffing levels for September 2018 for the 3 call centers.

  - Reviewed Department-provided information pertaining to the monthly average speed of answer for the Department's TPT-related calls for January 2016 through August 2018.

  - Observed 3 test calls with main call center management to understand the call timing process.

  - Conducted 5 mystery shopper calls to the Department's main call center to evaluate timeliness, accuracy, and quality of customer service during calls using the main call center's call evaluation checklist.

  - Observed main call center staff conduct quality assurance (QA) evaluations of calls.

  - Observed the main call center's QA evaluation checklist training and 1 calibration training session, which is a small-group, on-the-job training that is meant to help improve the consistency and quality of the Department's customer service.

  - Reviewed QA call evaluation documentation to determine whether the 3 call centers met their specific QA evaluation goals.

  - Reviewed policies and procedures, when available, for the 3 call centers' processes to address low QA evaluation scores and incorrect information provided to taxpayers.

  - Observed main call center management demonstrate their new tool for tracking and monitoring QA evaluations and reviewed the licensing and collections call centers' tools.

- To evaluate the Department's Education and Outreach Unit (EDU) efforts to help taxpayers comply with TPT requirements, we reviewed the Department's TPT-specific education and outreach resources on its website, observed 2 public workshop events, and observed a public "meet-and-greet" event.

- To evaluate the Department's City Services Team's (CST) efforts at managing TPT-related questions from cities and towns, we attended all 10 biweekly meetings with cities and towns between February and July 2018,

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observed 2 CST meetings in July and August 2018 that focused on how to replace/improve its database, and observed CST's new database in October 2018.

- Our work on internal controls included reviewing the Department's policies and procedures for performing various call center, EDU, and CST functions, and, where applicable, testing its compliance with these policies and procedures. We reported our conclusions on these internal controls and, where applicable, the Department's needed efforts to improve its controls in Findings 1 through 3. In addition, we assessed the reliability of the Department's database information for performing call center and CST work. Specifically, we interviewed Department staff and compared information in the call center database against live call information to test the reliability of call times. Through this work, we determined that the Department's call center database was sufficiently reliable for audit purposes. We reported our conclusion regarding the reliability, or lack thereof, of the Department's prior CST database in Finding 3.

We conducted this performance audit of the Department in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to the Department's Interim Director, staff, and former Director, who retired in December 2018, for their cooperation and assistance throughout the audit.

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Douglas A. Ducey
**Governor**

Carlton Woodruff
**Interim Director**

March 8, 2019

Lindsey Perry, Auditor General
Arizona Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Perry:

The Arizona Department of Revenue (Department) appreciates the opportunity to respond to the report of the Auditor General, *A Performance Audit: TPT Support and Education Services.* Additionally, the Department would like to thank your staff for the professional and collaborative approach of the Office of the Auditor General during the audit process. As discussed in the enclosed response, the Department will implement all recommendations contained in the report.

Thank you,

Carlton Woodruff
Interim Director

**Finding 1**: Department should further improve call centers' quality assurance (QA) processes

> **Recommendation 1:** The Department's main call center, licensing call center, and collections call center should develop and implement policies and procedures to address situations when a CSR provides incorrect information to a taxpayer, including guidance for what factors should be considered when deciding whether to call a taxpayer back and the procedure for doing so.
>
> > <u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.
>
> **Recommendation 2:** The Department's main call center, licensing call center, and collections call center should establish center-wide performance metrics for tracking and monitoring overall call quality.
>
> > <u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.
>
> **Recommendation 3:** The main call center should continue to implement and modify, as needed, its new QA evaluation tool.
>
> > <u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.
>
> **Recommendation 4:** The main call center should use its QA evaluation tool to help ensure that it meets its QA evaluation goal and to identify trends or areas for improvement.
>
> > <u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.
>
> **Recommendation 5:** The licensing call center should continue to follow its new QA process.
>
> > <u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.
>
> **Recommendation 6:** The licensing call center should implement its plan to adopt the main call center's QA evaluation tool and use it for monitoring evaluation results to identify trends or areas for improvement.
>
> > <u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.
>
> **Recommendation 7:** The collections call center should develop and implement policies and procedures that include guidance for supervisors on how to address low QA evaluation scores with CSRs.
>
> > <u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**Finding 2**: Education and Outreach Unit (EDU) should improve collaborations with other Department units

**Recommendation 8:** The Department's Education and Outreach Unit (EDU) should perform a systematic review of all Department units to identify potential opportunities for additional collaborations and obtain information that could inform its education and outreach efforts.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**Recommendation 9:** The Department's Education and Outreach Unit (EDU) should develop and implement a process to evaluate the effectiveness of its collaborative efforts.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**Recommendation 10:** The Department's Education and Outreach Unit (EDU) should document its process for collaborating with other Department units, including how and with whom to collaborate, the type of information that EDU staff should obtain, and what they should do with the information once they obtain it.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**Finding 3**: City Services Team (CST) should implement its plans for better managing cities' and towns' TPT questions

**Recommendation 11:** The Department's City Services Team (CST) should use its newly developed management reports to identify trends and areas for improvement.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**Recommendation 12:** The Department's City Services Team (CST) should develop and implement policies and procedures that address how CST staff receive, track, monitor, and respond to city/town questions, including time frames for doing so.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

**Recommendation 13:** The Department's City Services Team (CST) should evaluate how the new database and management reports are working for CST and the cities and towns and adjust them as needed.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

ARIZONA
Auditor General
Making a Positive Difference