

STATE OF ARIZONA

Department of Revenue
Office of the Director
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Janet Napolitano
Governor

Gale Garriott
Director

September 28, 2005

Ms. Debbie Davenport
Auditor General
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The Department of Revenue (Department) has reviewed the performance audit and sunset review of the Collections Division. The following comments are provided as the Department's response to the findings and recommendations.

Finding 1 – Division could improve collections by expanding matching programs.

Recommendation 1 - The Division should consider improving and/or enhancing the DES automated wage match and levy program by taking the following steps:

- a) Determining which delinquent accounts currently excluded from the DES wage match had an established Arizona account and including those accounts in the match.
- b) Exploring the feasibility of verifying non-filer taxpayer account information deemed to be confidential based on federal law with a non-IRS secondary source and re-keying that information so that these accounts can also be included in the wage match and levy programs.
- c) Requesting the Legislature to amend A.R.S. §23-722.01 to allow the Department to match delinquent taxpayer accounts against the new-hire information that is required to be provided to DES under its child support enforcement program.
- d) Decreasing the amount of time a collections account stays in the DES automated wage matching and levy process. Making such a change may need to be revisited, however, if the Department receives authority from the Legislature to use DES' new-hire database.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

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The Department is always looking for new and innovative ways to improve collections revenues. There is some concern regarding compliance with IRS disclosure rules, thus a meeting to discuss the potential process to share data will be scheduled. However, because the Department would only be sharing primary and secondary social security numbers, it is anticipated any issues of disclosure would be negated.

The Division has already set in motion steps to explore the implementation of this recommendation. A meeting is being scheduled with the IRS and DES to review the issues surrounding data sharing practices. Upon completion of that meeting it is anticipated the process of analyzing data requirements and mapping the process for data exchange could begin. Finally a review of the existing IGA between the Department and DES would take place, and modifications made as required.

The Department is currently reviewing A.R.S. §23-722.01 and will be meeting with DES to determine if legislation is required to allow the exchange of new hire information. Discussions with DES will also include any state and federal hire reports data that may be currently available for sharing. Should legislation be required to share new hire information the Division will work with stakeholders to obtain the necessary statutory permission.

It is agreed that the time an account resides in the levy process is excessive. The Division will take immediate steps to reduce the time in this category from 60 to 30 days. (See response to Recommendation 2 below)

Recommendation 2 - The Division should assess whether it would be beneficial to move a case in the automated bank levy match to a collector sooner than 60 days.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

In response to the recommendation, a review has been conducted of both the wage matching and levy procedures and the automated bank levy process. As a result, it has been determined that the bank levy step in the process should be eliminated. In its place the changes developed to address Finding 1, Recommendation 3 of this report will be implemented.

Implementation of the recommendation will require specific processes. First, the time allotted to identify wage levy sources through the automated wage matching process will be reduced from 60 to 30 days. If no levy source is identified within that 30 day period, the account will move to a newly created bank match category. During the next 30 days, an attempt to match bank customer records to collections liabilities will take place. If a match occurs, the bank account will be levied. If no levy source is found through the bank

matching process the case will move immediately to an auto dial stage, and will remain there for 90 days.

Upon finalization of the new process the Division training manual will be modified and training provided to all employees. In addition, control points will be established to determine the effectiveness of the new process by measuring revenues captured at each step. Finally, an assessment of the results will be completed and modifications to the process made to ensure it is both cost effective and efficient.

Recommendation 3 - The Division should work with the Arizona Bankers Association to draft potential statutory changes and then request the statutory authority to establish a financial institutions data match to receive complete account holder information from Arizona financial institutions for the purpose of identifying levy sources for delinquent taxpayers.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

The current process of conducting research to identify bank levy source information is time consuming and costly for both the Department and banks, as is the execution of the mass bank levy process. The Division will contact the various stakeholders to explore the requirements and feasibility of moving forward with this recommendation. Activity will include seeking out necessary support to gain appropriate legislation that would provide authority for data matches with banks. Having completed the preliminary research and development actions, the required legislation will be pursued.

Recommendation 4 - The Division should consider implementing an interim notification system for wage and bank levy matches and consider building in an automatic notification function once individual income tax accounts have been converted to the BRITS system.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

The Division, in concert with IT Support staff, will work to develop the interim reporting as recommended. DES will be contacted and copies of the appropriate data files requested to match against the existing collections inventory data. The reports should identify account matches which will then automatically notify the assigned collector. As this procedure is implemented, the training manuals will be updated and collections personnel trained on the revisions.

Recommendation 5 - After the state vendor program has been implemented, the Division should continue to monitor its results within a one year period to determine whether it should be continued.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

The Division recently completed comparisons of collections accounts to the procurement database containing all active vendors approved to conduct business with the State of Arizona and is assessing the results. Any positive matches will result in enforcement action being taken. The Division foresees running the data comparisons on a quarterly basis for a one year period. Data regarding the number of delinquent vendors, the revenue collected, and the time required to complete the tasks associated with the recommendation will be maintained and analyzed to determine whether the program is cost effective and should be continued.

Recommendation 6 - The Division should take the steps necessary to establish a matching program with the State Lottery to levy a delinquent taxpayer's winnings.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

The Division agrees with the recommendation and has already initiated discussions with Lottery to determine methodologies needed to accomplish collection of taxpayer liabilities. Current discussions involve evaluating data confidentiality, operational concerns and statutory authority. Subsequent meetings will be held to explore other process alternatives to provide the most effective method for implementing this recommendation. Should a satisfactory method not be identified, the Department will seek legislation upon determining the requirements of agencies, the IRS and other parties.

Finding Two – Division could improve automated collection tools.

Recommendation 1 - The Division should regularly review and evaluate the results of its debtor profiling program and revise it as necessary.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

Currently the profiling system (Faire-Isaac) is not fully implemented. During this development time, the Division has been establishing the business rules for handling an account after profiling is complete. Action on the account will be based on several factors

including the profiling score, amount of the liability and the tax type. A periodic review will be undertaken to analyze the collections information regarding payment patterns, the effective number of accounts that have been successfully contacted and revenues collected upon based on the account actions, as well as the turnaround time for the various account cycles. Additionally, modifications will be made to enhance the success of debtor profiling. Part of the analysis process will be benchmarking with other states that are using the debtor profiling process, to determine the most effective criteria to be used. Ultimately, the application will be most valuable when the BRITS program has completed conversion of individual income taxes, currently scheduled for implementation in the summer of 2007.

Recommendation 2 - The Division should assess whether it needs to redistribute its workload or staffing based on how cases are scored through the debtor profiling program.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

The Division has established the current process of caseload assignment based on the recommendations of the BRITS consultant, Accenture. The program is currently not fully implemented. While the program is being implemented, the Division will benchmark other states and public sector entities to gather information regarding program effectiveness, and how caseloads are assigned. In addition, an interim software application using profiling algorithms for businesses will be developed. To assess the results of this process, various metrics including payment patterns, collection success ratios, and account enforcement cycle times will be reviewed. When the program is fully implemented, the performance will be analyzed and any changes made as necessary.

Recommendation 3 - The Division should consider whether accounts in Office Collections should be automatically identified for review at an interval sooner than 90 days before expiration to ensure an appropriate amount of time for enforcement action and a sufficient number of staff assigned to complete the review.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

Although the Division agrees with the recommendation there is some concern about the short term impact this change will have on account inventory. Due to high turnover in the collector position and thus a staffing shortage, collectors are applied first to those accounts deemed most collectable. Because accounts approaching the Statute of Limitations are older and, therefore, typically less collectable, the Division has chosen to not concentrate limited resources on those accounts. In order to increase our focus on accounts approaching the Statute of Limitations, resources will have to be reallocated from the more current and more collectable accounts. To ensure collection revenues are not impacted the

Division will stage the transition of Office Collections from the currently scheduled evaluation period of 90 days to the new evaluation period of one year prior to the Statute of Limitations expiration. The first stage will be to move the review of cases to a period six months prior to the Statute of Limitations expiration. The second stage will transition the review period to one year prior to the Statute of Limitations expiration. At the conclusion of each stage metrics will be evaluated and the Division will proceed accordingly so that the state's revenues are not adversely impacted.

Currently both the Bankruptcy and Field sections review cases at the one year mark.

Recommendation 4 - The Division should expand the review of accounts nearing their statute of limitation deadline to include all tax types.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

Until recently the Division was unable to evaluate statute of limitation dates for all tax types. Given the availability of new data, the Division will begin applying the process steps outlined in the response to recommendation 3 to each tax type as the conversion of that tax is completed in BRITS. The Division will also continue with these process steps for tax types remaining in the Legacy system, prior to converting to BRITS.

Recommendation 5 - The Division should ensure that BRITS includes automated controls for key collection activities such as levies, liens, and payment plans.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

Development of controls for the new BRITS environment has begun. The controls will allow management to monitor individual and team performance. In addition, inventory management reports have been either newly designed or refined. When the program is complete, the Division will implement a series of controls which will monitor such items as number of liens and levies processed and/or closed, collector caseload, and controls that will provide information for improved customer service and to allow management to make informed decisions. These tools will be aligned with the strategic goals of the Department.

Finding Three – Division should take steps to provide taxpayers additional options to pay debts.

Recommendation 1 - The Division should seek statutory authority to accept credit card payments for non-Web-based transactions.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

Please refer to the Division's response to Recommendation 2 below.

Recommendation 2 - The Division should expand its plans to accept credit cards to include taxpayers with past due taxes.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

The Department agrees that statutory authority is required to accept credit cards on past due taxes and non-web based transactions. The Department will work to develop and forward the necessary language to the Legislature. As one of the key requirements of the BRITS program, it has always been the Department's intent to establish the ability to accept credit card payments for tax liabilities. This functionality is currently planned for full implementation with the conversion of individual income taxes to the new system. This capability will include not only web based transactions, but also payment arrangements via telephone contact or walk in.

Recommendation 3 - The Department should consider seeking legislative authority to accept automatic withdrawal for payment plans.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

The Department continues to seek ways to improve the payment process for the collection of tax liabilities. It is unclear if legislative action is required to implement this recommendation in circumstances where the taxpayer voluntarily requests automatic withdrawal as an alternative to traditional payment alternatives. This will be verified and, if true, will allow a faster implementation of the payment alternative. The Division will contact other states to gain an understanding of their process requirements. Meetings will be scheduled with various financial institutions, the Department's IT Division and the Comptroller's Office to identify process requirements for each of the stakeholders. If agreement is reached that legislative action is required, legislation will be crafted, with stakeholders' support, seeking appropriate authority to accept automatic withdrawals for payment of tax liabilities.

Recommendation 4 - The Division should assess the feasibility of developing a telephone and/or web-based system through which low-risk taxpayers can set up their own payment plans.

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The finding of the Auditor General is agreed to and the recommendation will be implemented.

Although the Department agrees with the recommendation, it is important that the BRITS program is fully implemented across all tax types prior to implementing this recommendation. It is equally important that the profiling system is fully operational and showing positive results. Another essential element is the installation of a new call center for the Department. There is a project request currently in the AZnet inventory for this installation with the target date for the spring of 2006. Finally, the Department is concerned about the initial capital requirements, as well as on-going maintenance costs for this application.

The Department will implement the recommendation once the above issues are satisfied. The Division intends to meet with AZnet and the Department's IT Division to define requirements. A review of the various collection publications, policies and procedures will be undertaken with the goal to make changes to include instructions for the new process. An outreach program will be planned to provide both internal Division and external user community instructions on the reasons for and use of the new application. During this process a careful assessment of costs versus benefits will be in place to assess the feasibility of continuing the program or determining any modifications necessary.

As a final comment, the Department would like to express appreciation for the professional conduct of your staff during the performance and sunset audits. Many hours were spent learning about the Department's operations and interacting with the staff. The recommendations provided are appreciated and will be implemented in a manner to achieve our common goal of improving services to the citizens of the State.

Sincerely,

Gale Garriott
Director