



STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 19, 2007

The Honorable Robert Blendu, Chair
Joint Legislative Audit Committee

The Honorable John Nelson, Vice Chair
Joint Legislative Audit Committee

Dear Senator Blendu and Representative Nelson:

Our Office has recently completed a 24-month followup of the Department of Revenue—Collections Division regarding the implementation status of the 18 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in October 2005 (Auditor General Report No. 05-14). As the attached grid indicates:

- 7 have been implemented;
- 1 is substantially implemented;
- 4 are in the process of being implemented;
- 2 are not yet applicable; and
- 4 are no longer applicable.

Unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our follow-up work on the Department's efforts to implement the recommendations from the October 2005 audit report.

Sincerely,

Melanie M. Chesney, Director
Performance Audit Division

MMC:Acm
Attachment

cc: Gale Garriott, Director, Department of Revenue
Frank Bouche, Assistant Director, Department of Revenue, Collections Division
Joanne Prakapas, Chief Auditor, Department of Revenue

**DEPARTMENT OF REVENUE
COLLECTIONS DIVISION
24-Month Follow-Up Report To
Auditor General Report No. 05-14**

FINDING 1: Division could improve collections by expanding matching programs

Recommendation	Status of Implementing Recommendation	Additional Explanation
<p>1. The Division should consider improving and/or enhancing the Department of Economic Security (DES) automated wage match and levy program by taking the following steps:</p>		
<p>a. Determining which delinquent accounts currently excluded from the DES wage match had an established Arizona account and including those accounts in the match.</p>	<p>Substantially Implemented</p>	<p>According to the Department, it received permission from the United States Internal Revenue Service (IRS) to share federal data with the DES so that delinquent accounts identified only by the IRS do not need to be excluded from the DES wage matching. On September 28, 2007, the Department signed an agreement with the DES to include the use of federal data when sharing information for nonfiler account wage matching. According to the Department, this process will begin with the BRITS individual income tax release scheduled for December 2007.</p>

**DEPARTMENT OF REVENUE
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24-Month Follow-Up Report To
Auditor General Report No. 05-14**

FINDING 1: Division could improve collections by expanding matching programs (cont'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
<p>b. Exploring the feasibility of verifying nonfiler taxpayer account information deemed to be confidential based on federal law with a non-IRS secondary source and rekeying that information so that these accounts can also be included in the wage match and levy programs.</p>	<p>No Longer Applicable</p>	<p>The Department determined that rekeying the data was impractical. However, as mentioned above the Department signed an agreement on September 28, 2007 with DES to share federal data. This wage matching will begin with the BRITS individual income tax release scheduled for December 2007.</p>
<p>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.</p>	<p>No Longer Applicable</p>	<p>After the audit, the Department conducted additional legal research and determined that federal code 42USC 653(a) prohibits the sharing of new-hire information. Our Office reviewed and concurred with this opinion.</p>

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FINDING 1: Division could improve collections by expanding matching programs (cont'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
<p>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.</p>	<p style="text-align: center;">Implemented at 6 Months</p>	
<p>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.</p>	<p style="text-align: center;">No Longer Applicable</p>	<p>The Division has eliminated the automated bank levy in order to more effectively process collection accounts. As discussed in Finding 1, Recommendation 3, the Department is working to develop a new bank levy process.</p>

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FINDING 1: Division could improve collections by expanding matching programs (cont'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
<p>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.</p>	<p>Implemented at 18 Months</p>	<p>The Department worked with the Arizona Bankers Association and SB1030 was introduced in the 48th Legislature, 1st Regular Session, but was never heard in committee. This bill would have statutorily authorized the Department to enter into agreements with financial institutions to develop and operate a data match system to help the Department collect of delinquent taxes.</p>
<p>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.</p>	<p>Implementation in Process</p>	<p>According to the Department it has developed an interim notification system in the form of a weekly wage matching report to notify collection staff when wage levy matches are made. In addition, the Department reported that automated wage and bank levy notifications will be part of its December 2007 BRITS implementation.</p>

**DEPARTMENT OF REVENUE
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FINDING 1: Division could improve collections by expanding matching programs (concl'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
5. After the state vendor program has been implemented, the Division should continue to monitor its results for a 1-year period to determine whether it should be continued.	Implemented at 12 Months	
6. The Division should take the steps necessary to establish a matching program with the State Lottery to levy a delinquent taxpayer's winnings.	Implemented at 12 Months	

**DEPARTMENT OF REVENUE
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FINDING 2: Division could improve automated collection tools

Recommendation	Status of Implementing Recommendation	Additional Explanation
1. The Division should regularly review and evaluate the results of its debtor profiling program and revise it as necessary.	Implementation in Process	The Department reported that a recent court ruling bars the Department from gathering credit bureau information without the debtor's consent. It further reported that its legal staff and the Attorney General's Office is reviewing the impact of this decision on the Department's debtor profiling program and the direction they will take with that program is unknown.
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.	Not Yet Applicable	Full implementation of this recommendation is contingent on full implementation of Finding 2, Recommendation 1.

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FINDING 2: Division could improve automated collection tools (concl'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
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.	Implemented at 12 Months	
4. The Division should expand the review of accounts nearing their statute of limitation deadline to include all tax types.	Implemented at 12 Months	
5. The Division should ensure that BRITS includes automated controls for key collection activities such as levies, liens, and payment plans.	Implementation in Process	The Department reported that increased security over entering debt settlement agreement information, making agreement changes, and writing off debt after agreements are made will be part of the BRITS Individual Income tax implementation. In addition, according to the Department, increased security over the information available to Attorney General staff assigned to collections cases will also be implemented with this next BRITS implementation scheduled for December 2007.

**DEPARTMENT OF REVENUE
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FINDING 3: Division should take steps to provide taxpayers additional options to pay debts

Recommendation	Status of Implementing Recommendation	Additional Explanation
1. The Division should seek statutory authority to accept credit card payments for non-Web-based transactions.	Implementation in Process	The Department is working toward implementing this recommendation without seeking a statutory change. The Department worked with the State Treasurer's Office to develop a Request for Proposal seeking a vendor to process tax liability credit card payments over the telephone. According to the Department, this capability should be available during the first half of 2008. However, the Department reported that because of statutory restrictions and General Accounting Office policies regarding convenience fees, the Department will still be unable to accept over-the-counter tax liability payments by credit card.
2. The Division should ensure, as part of the BRITS project, that it can accept credit cards for collection accounts.	Not Yet Applicable	Full implementation of this recommendation is contingent on full implementation of Finding 3, Recommendation 1.

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FINDING 3: Division should take steps to provide taxpayers additional options to pay debts (concl'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
3. The Department should consider seeking statutory authority to accept automatic withdrawal for payment plans.	No Longer Applicable	After the audit, the Department conducted additional legal research and determined that it already has sufficient statutory authority to accept automatic withdrawals for payment plans. Our Office reviewed and concurred with this opinion.
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.	Implemented at 18 Months	