

Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



Department of Revenue: Filing Enforcement and Collections Recommendations Follow-up

Background

In 2010 the Secretary of State Audits Division completed an audit at the Department of Revenue (the department) focusing on two main areas: 1) utilizing data resources to identify non-filers and increase compliance, and 2) reviewing collection practices for delinquent debt, especially as those practices related to the use of private collection firms (PCFs). Our report (number 2010-20A) concluded that the department could do more to develop a systematic, strategic approach to identify or take action with non-filers. The department's process for identifying non-filers was not comprehensive or data-intensive. The report also concluded that even though the department had increased its emphasis on collections, it could improve by taking more timely collections actions, using up-to-date information about the delinquent taxpayers, better managing delinquent accounts, and effectively using available technology.

Results

This report provides the implementation status, as of July 2011, of the audit recommendations we made in our prior report. Because it is a follow-up report on previously issued recommendations, we were not required to follow generally accepted government auditing standards. The results of our follow-up work are included in the table below. At the department's request, we also performed preliminary work around the selection process for personal income tax audits. However, since the department recently implemented significant changes to the way audit cases are selected and because performance data related to the new process is not yet available, we chose to defer an audit of that process to a later date.

Since the release of our report in April 2010, the department has made efforts to improve management of the filing enforcement and collections processes. As shown in the table below, we found that management was in the process of addressing all the recommendations we made. The table provides details about the actions the department has taken, as well as information about what is left to resolve the recommendations.

Most noteworthy are management's actions to update its filing enforcement strategy by prioritizing the data sources it uses and the way in which it works through non-filer leads. Moreover, DOR also completed a project that involved sending notification to potential non-filers for tax year 2008.

The department also took actions to improve its collections process. For example, the collections section established timeliness and results goals and is developing statistical reports to track outcomes. According to the department, it began sending debts to private collection firms weekly rather than monthly. In addition, the department installed an "automated call distributor" that routes calls for the collections unit to the first available revenue agent, reducing the need to play "phone tag" with taxpayers. Finally, the department compared its collections results to those of the private collection firms, but we noted factors that made the analysis inconclusive.

To quickly increase collections, the department implemented two projects that involved staffing changes. One project involved temporarily shifting employees from filing enforcement to collections. The other project assigned higher-level revenue agents to work on newer debts. According to the department, its increased collection efforts resulted in over \$30 million in additional revenue as of June 2011. However, we also noted that while the amount of collections increased, the outstanding balance of delinquent accounts increased as well.

In addition to the above actions, the department began the process to replace its core systems with a comprehensive tax system, including data warehouse and business intelligence tools such as accounting, case management, collections, audit case selection, and tax returns processing. The request for proposals for the core systems replacement project was released in June 2011, and the department estimates that the system will be implemented within about six years. Management also initiated Rapid Process Improvement projects for the collections process

and several other departmental areas. These projects are an on-going strategy for analyzing and improving operations.

Even with the department's efforts to date, much work remains to be done before the recommendations are fully implemented. Department management cited a lack of personnel resources and an antiquated, cumbersome information technology system as barriers. Moreover, we acknowledge that the recommendations will require a long-term effort and commitment, and that full implementation may not have been feasible in the time since the release of our audit report.

In light of the six-year timeline for the core systems replacement project, we encourage department management to ensure resources are made available to continue its work on improving the filing enforcement and collections processes. Management should also consider formally implementing key tools (e.g., ACL or other data analysis software) and metrics to improve information for decision-making and maximize the effectiveness of filing enforcement and collections. Specifically, department management should take the following actions when implementing the recommendations from our prior audit:

- Develop and document a comprehensive strategy for identifying non-filers. This strategy should address specific uses of currently available technology and a timeline for implementation.
- Given the increasing balance of delinquent accounts, consider how private collection firms (PCFs) could be better utilized to reduce the collections backlog. Although the department reports a better collection rate than that of the PCFs, the true cost of DOR collections, as well as the cost of sending accounts to PCFs, should be measured and considered when developing a collections strategy. This will insure comparable collections data is used when calculating and comparing collection rates.
- To measure progress and enhance decision making, develop and routinely monitor valid and useful metrics for filing enforcement and collections.

Recommendations to the Oregon Department of Revenue

Audit Recommendations Related to Filing Enforcement	Status of Recommendations	Additional Comments
Develop and implement a comprehensive and timely approach to identify non-filers every tax period.	In Process	The department updated its filing enforcement strategy to emphasize higher priority data sources for determining non-filer leads and now focuses on the most current tax years. However, the process still relies heavily on manual identification of potential non-filers. In addition, the department now has access to sophisticated analysis software, ACL, but the use of this tool as part of a comprehensive strategy for identifying non-filers has not been fully implemented.
Develop and implement strategies to bring non-filers quickly into compliance for future tax years.	In Process	The department reported implementing a project that involved sending letters to potential non-filers for tax year 2008. About 91% of the letters sent received no response, 7% resulted in filed returns and the remaining 2% were determined "not required to file." In cases where no response was received, leads were added to the filing enforcement tracking system and are now going through the normal filing enforcement process.

Audit Recommendations Related to Collections	Status of Recommendations	Additional Comments
Establish and track timeliness and results goals for DOR personnel to better achieve prompt contacts and successful collection of each liability.	In Process	The department developed timeliness and results goals for collections and is developing statistical reports to track outcomes. However, the department reported that these metrics have not been fully implemented due to difficulties posed by their antiquated and non-integrated IT systems, and limits on IT staffing resources. In addition, department management began completing quarterly performance evaluations to set goals and measure results of collections employees' work.
Periodically analyze information on agency strategies, efforts and results to enhance collections results.	In Process	The department initiated Rapid Process Improvement projects (an ongoing strategy for analyzing operations) for collections and several other processes. In addition, department management re-assigned employees to better leverage staff expertise.
Transfer liabilities to PCFs based upon case characteristics to obtain the most DOR revenues.	In Process	When DOR compared its collection results to that of the private collection firms, DOR determined it was more successful than the firms. However, we noted some factors that could make comparability inconclusive. The department is still in the process of determining which types of cases are the best sent to PCFs.
Pursue skiptracing alternatives and integrate the use of advanced research tools into the DOR collection process.	In Process	The department acquired access to two skiptrace tools. Use of one tool is limited to the skip trace agent while the second tool is also available to certain revenue agents. In addition, the department is researching the possibility of other online research tools, such as social networking sites.
Automate the processes of assigning accounts to PCFs, reconciling payments, and providing account balance updates.	In Process	The department reported implementing a few semi-automated processes utilizing macros to send some information to private collection firms. However, any further automation will be part of the core systems replacement project. A request for proposals for the core systems replacement project was issued in late June 2011.

Explore ways to increase sharing information with PCFs to enhance collections.	In Process	The department reported that it now sends debts to private collection firms weekly rather than monthly. Further information sharing is dependent on the core systems replacement project.
Prudently plan, acquire and implement a comprehensive information technology system that will support automating processes, prioritizing work and managing performance.	In Process	The department issued an RFP in late June, 2011 to begin the core systems replacement project. The new core system will be a comprehensive tax system including data warehouse and business intelligence tools.
Develop and implement a plan to quickly increase collections, which could include more outsourcing efforts, until the backlog is reduced.	In Process	<p>The department implemented two different projects to quickly increase collections. One project involved shifting employees from filing enforcement to collections. The other project had higher-level revenue agents working on newer debts. The department reported that the projects increased collections. However, the data provided also shows an increase in the balance of delinquent accounts.</p> <p>In addition, the department installed an “automated call distributor” that routes calls for the collections unit to the first available revenue agent, reducing the need to play “phone tag” with debtors.</p>



Oregon

John A. Kitzhaber, MD, Governor

Department of Revenue

955 Center St NE
Salem, OR 97301-2555
www.oregon.gov/dor

August 16, 2011

Gary Blackmer, Director
Secretary of State, Audits Division
255 Capital Street NE, Suite 500
Salem, OR 97301

Dear Mr. Blackmer,

This letter is our management response to the Department of Revenue: Filing Enforcement and Collections Recommendations Follow-up. We greatly appreciate the work of your staff from the Division of Audits, and for their collaborative effort while following up on the recommendations made as a part of last year's Secretary of State audit to improve the collections and filing enforcement functions at the Department of Revenue.

As noted in the follow-up audit, the department has made efforts to improve management of the filing enforcement and collections processes, and management is in the process of addressing all the recommendations that were made. The findings and recommendations within the original audit provided the basis for numerous changes in the way we do our work, and validated process improvements we were working on at the time of the audit. Thank you.

Please accept the following comments on the follow-up actions directed to department management when implementing the recommendations from your prior audit:

Recommendation:

Develop and document a comprehensive strategy for identifying non-filers. This strategy should address specific uses of currently available technology and a timeline for implementation.

Response:

Management agrees. By December 31, 2011, management will develop a comprehensive strategy for identifying non-filers.

Recommendation:

Given the increasing balance of delinquent accounts, consider how private collection firms (PCFs) could be better utilized to reduce the collections backlog. Although the department reports a better collection rate than that of the PCFs, the true cost of DOR collections, as well as the cost of sending accounts to PCFs, should be measured and considered when developing a collections strategy. This will insure comparable collections data is used when calculating and comparing collection rates.



Response:

Management agrees with the recommendation and will consider this guidance when developing collections strategy.

Recommendation:

To measure progress and enhance decision making, develop and routinely monitor valid and useful metrics for filing enforcement and collections.

Response:

Management agrees with the intent of the recommendation. We have identified the high level outcomes and performance measures for both the collections and non-filer functions. As noted in the follow-up report, DOR relies on an antiquated, cumbersome information technology system that has slowed the final implementation of a management model driven by these performance metrics. (The request for proposals for DOR's core systems replacement project was released in June 2011.)

Thank you for the opportunity to respond.

Sincerely,



Karen S. Gregory, Acting Director

Department of Revenue

955 Center St. NE

Salem, OR 97301-2555

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Audit Team

Deputy Director, Will Garber, CGFM, MPA

Audit Manager, James E. Scott, MM

Principal Auditor, Amy Palacios, CPA

Staff Auditor, Wendy Kam, MBA

Staff Auditor, Shawna Binning, MBA

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phone: 503-986-2255

mail: Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

The courtesies and cooperation extended by officials and employees of the Department of Revenue during the course of this follow-up were commendable and sincerely appreciated.