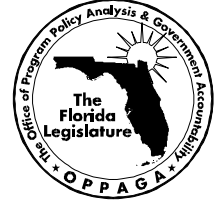




## Office of Program Policy Analysis And Government Accountability



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### Review of the Fiscal Year 1995-96 Performance of the Department of Revenue's General Tax Administration Program Compared to General Appropriations Act Performance Standards

#### Report Abstract

- The General Tax Administration Program's 1995-96 performance measures and standards indicate that the Department gained some efficiency in processing tax returns and payments.
- However, several problems limit the usefulness of the measures and standards for assessing Program performance. The measures are not comprehensive and some measures are not valid. In addition, some measures report inaccurate performance data, and most measures have unreasonable standards.
- Additional performance-based program budgeting measures and the upcoming OPPAGA program evaluation and justification review will provide more comprehensive information on Program performance.

#### Purpose of Review

This is the first of two reports presenting the results of our program evaluation and justification review of the Department of Revenue's General Tax Administration Program. The law directs the Office of Program Policy Analysis and Government Accountability to complete a program evaluation and justification review of each state agency program that is operating under a performance-based program budget. Our Office is to review each program's performance-based program

budgeting measures and standards and identify alternative means for providing program services.

This report addresses performance of the General Tax Administration Program against its 1995-96 General Appropriations Act measures and standards. In this review, we examined: (1) the Program's performance compared to the legislative standards for fiscal year 1995-96; and (2) options for improving the Program's fiscal year 1997-98 performance-based program budgeting measures and standards. Our second report addressing Program performance and policy alternatives for reducing costs and improving services will be published before July 1, 1997.

#### Background

The Department of Revenue's General Tax Administration Program administers the collection of 38 taxes, including the sales and use tax, the corporate income tax, and the corporate and personal intangible tax. According to s. 213.01, F.S., the Legislature's intent is that the revenue laws of the state be administered in a fair, efficient, and impartial manner. To ensure that Florida taxpayers are adequately safeguarded and protected during tax assessment, collection, and enforcement processes, the Legislature established the Florida Taxpayer's Bill of Rights. Among the rights guaranteed Florida taxpayers is the right to available information and prompt and accurate responses to questions and requests for assistance and the right to seek either formal or informal review of any adverse decisions relating to the Department's audit or collection processes.

One of the basic principles underlying Florida's revenue management process is that taxpayers will voluntarily

comply with applicable laws and pay the full amount of taxes they owe. However, some taxes due the state are not voluntarily paid. Therefore, a major part of the Program's function is to collect taxes from individuals and businesses that do not voluntarily pay owed taxes.

The Program's five major functions are:

- **Taxpayer Registration, Education, and Assistance.** In this activity, the Department ensures that retailers are registered and provides education and assistance to taxpayers through instructional materials, seminars, and other presentations using various media.
- **Tax Returns Processing and Reconciliation.** The Department ensures that all tax returns are processed accurately and timely, reviews and analyzes tax payments, generates and mails tax notices to taxpayers who have made incorrect payments, and ensures that all remittances are deposited in a timely manner and distributed to the appropriate state and local government entities.
- **Compliance Enforcement.** In this activity, the Department identifies taxpayers who do not pay their taxes correctly and on time through various methods, including audits of large companies and identification of unregistered taxpayers through checking bills of lading at key entry points into Florida. The Department also conducts investigations of potential tax evaders.
- **Collections.** This activity involves pursuing collection of outstanding obligations through various methods, including written and telephone correspondence with taxpayers and other more intensive techniques such as garnishing assets and issuing levies.
- **Adjudication.** In this activity, the Department reviews taxpayer appeals of Department tax decisions (e.g., audit assessments) prior to any formal litigation.

For fiscal year 1995-96, the General Tax Administration Program had 2,405 authorized positions and spent approximately \$82.3 million in salaries and benefits. In fiscal year 1995-96, the Program collected over \$18 billion, of which \$566 million were involuntary collections.

The 1994 Government Performance and Accountability Act directs state agencies to submit performance-based program budget requests, which include proposed performance measures and standards, to the Legislature

for approval.<sup>1</sup> The Legislature includes the approved performance measures and standards in the annual General Appropriations Act. State agencies must report annually on performance against these standards to the Governor and the Legislature in their legislative budget requests. The Legislature considers this information in making funding decisions. The Legislature can also award incentives and disincentives for program performance that exceeds or fails to meet the established standards.

The Legislature authorized the General Tax Administration Program to operate under a performance-based program budget in fiscal year 1995-96, and specified 12 performance measures, including 7 output and 5 outcome measures (see Exhibit 1).<sup>2</sup> The Legislature authorized the Program to continue to operate under a performance-based program budget during fiscal year 1996-97 and approved 24 performance measures and standards. The Department has requested that the Legislature allow the Program to operate under a performance-based program budget in fiscal year 1997-98 and has proposed 21 performance measures and standards.

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<sup>1</sup> Standards are expected levels of performance against which actual performance is to be compared.

<sup>2</sup> Output measures should reflect actual services or products delivered by a state agency, while outcome measures should be an indicator of the actual impact or public benefit of a program.

**Exhibit 1**  
**Fiscal Year 1995-96 Performance-Based Program Budgeting Measures for the**  
**General Tax Administration Program**

<b>Outcome Measures</b>	<b>Explanation</b>
Total collections per filled Full-Time Equivalent position (tax, penalty, and interest)	The Department's return-on-investment. The total dollars collected for Department-administered taxes are divided by the number of filled Full-Time Equivalent positions in the Program and those in the General Counsel's Office that work on tax-related issues. Does not include other staff devoted to tax administration, such as Other Personal Services, contract, and computer systems staff
Average number of days from receipt of payment to deposit	The timeliness of depositing sales tax payments made by check or electronic fund transfer
Percent of returns filed accurately and timely by all filers	The Program's ability and effectiveness in reducing taxpayer errors (e.g., by taxpayer education, by improved clarity in tax return instructions)
Percent of bills and delinquency notices issued accurately by the Department	Tax collection efficiency (e.g., fewer tax notices sent in error to taxpayers who do <i>not</i> owe taxes)
Percent of billed amounts that are collected by the Department (tax, penalty, and interest)	Program's efficiency in collecting amounts owed from sales tax bills. Represents a ratio of payments received from sales tax bills and bad checks, to the value of sales tax bills mailed and notices sent for bad checks. Payments do not necessarily correspond to the bills mailed

<b>Output Measures</b>	<b>Explanation</b>
Total collections: Department-administered taxes (tax, penalty, and interest)	Total collections for all Department-administered taxes and fees. Excludes moneys collected under contract for other state agencies and child support enforcement
Total involuntary collections (tax, penalty, and interest)	Dollars collected from the Program's enforcement activities (e.g., bill collections and taxpayer audits)
Total voluntary collections (tax, penalty, and interest)	Dollars remitted with tax returns by taxpayers. Calculated by subtracting total involuntary collections from total collections
Number of taxpayer filing/payment assistance provided	Number of taxpayers provided assistance by mail, phone, or in-person concerning general tax issues or specific questions (e.g., tax payments or bills)
Department-initiated educational contacts with taxpayers	Number of people attending workshops or other types of presentations made by Program staff on taxes or related Department programs
Number of delinquency notices issued	Number of notices sent to taxpayers who failed to file a tax return for sales, corporate income, intangibles, or fuel tax according to Department records
Number of billings issued because of an incorrect payment by the taxpayer	Number of bills sent to taxpayers who filed incomplete, late, or inaccurate tax returns according to Department records

Source: Fiscal year 1995-96 General Appropriations Act and Program records.

## Findings

### Using the performance-based program budgeting measures, what can be concluded about Program performance in fiscal year 1995-96?

Based on the 1995-96 measures, limited conclusions can be made about the performance of three of the five major Program functions: tax returns processing and reconciliation; taxpayer registration, education and assistance; and collections. However, several weaknesses in the measures impeded our ability to assess the General Tax Administration Program performance.

**Program Performance.** The 1995-96 performance measures indicate that the Department gained some efficiency in its tax return processing function, but did not make significant improvements in issuing correct bills and delinquency notices. As a result of procedural changes in how bills and delinquency notices are generated, fewer bills and delinquency notices were issued during fiscal year 1995-96. This resulted in increased efficiency due to reduced costs for postage and less staff time involved in preparing and processing tax notices. In addition, deposits of tax remittances were being made more rapidly due to improvements in how checks were processed in the Tallahassee office. Although these measures indicate enhanced efficiency in processing returns and depositing taxes, there were more errors in the bills and delinquency notices issued in fiscal year 1995-96 than those issued the previous fiscal year. For example, the accuracy rate for bills and delinquency notices issued accurately declined somewhat, from 91% to 87.6%.

The Department also initiated more educational contacts with taxpayers in 1995-96, but this did not have a significant impact on improving the accuracy and timeliness of taxpayers filing returns. For example, the Department increased the number of educational contacts from 29,151 in fiscal year 1994-95 to 35,509 in fiscal year 1995-96 (an increase of approximately 22%). However, this increase, along with other taxpayer assistance efforts, has not had much impact on the accuracy and timeliness of taxpayers filing returns. For example, the outcome measure “percent of returns filed accurately and timely by the Department” showed only a slight improvement, from 75% in fiscal year 1994-95 to 76.5% in fiscal year 1995-96.

Although total tax collections have increased by more than \$3 billion over the past three fiscal years, it is unclear whether the increase was due to Department collection efforts or to generally improved economic conditions. Neither of the two outcome measures relating to collections efficiency (i.e., percent of billed amounts collected and collections per filled Full-Time Equivalent) were valid measures due to the way they are calculated. Therefore, we were unable to make conclusions about the efficiency of the collections effort. One indicator of the effectiveness of the Department’s collections effort is the tax gap, which refers to the difference between the amount of taxes collected and the amount that should have been collected if all individuals filed tax returns timely and paid the correct amount owed. The Department has not conducted an overall tax gap analysis due to the cost of such a study. Information about the amount of owed taxes that goes unpaid each year would be useful for analyzing the effectiveness of the Department’s collections efforts.

**Problems With Performance Measures.** Although the measures and standards provide some useful information for assessing Program performance, four factors limit the usefulness of the measures and standards for assessing Program performance:

- The measures are not sufficiently comprehensive to address the outcomes of two major Program functions, compliance enforcement and adjudication;
- Some measures are not valid measures of the Program’s efforts to fairly, efficiently, and impartially administer tax collections;
- The Department reported inaccurate performance information for some measures; and
- Two-thirds of the performance standards requested by the Department and adopted in the 1995-96 General Appropriations Act do not reflect reasonable benchmarks for evaluating Program performance.

**Comprehensiveness of Measures.** The General Tax Administration Program's 1995-96 measures are not sufficiently comprehensive to provide useful information on each major Program function. The measures do not assess the outcomes for two of five major functions: compliance enforcement and adjudication. As a result, we were unable to draw any conclusions about the Program's performance in these functional areas or make an overall assessment of Program performance. Five of the 12 outcome measures address three of five Program functions (i.e., taxpayer registration, education and assistance; tax returns processing and reconciliation; and collections). The remaining 7 Program measures are actually output measures that assess the efficiency of the Department's efforts to process tax returns and payments. The 1996-97 performance measures are more comprehensive than the 1995-96 measures in that they include outcomes for all five major Program functions.

**Validity of Measures for Assessing Program Performance.** Most of the measures were valid indicators of Program performance. However, of the 12 measures, 2 outcome measures had validity problems. (See Exhibit 2.) The outcome measure "total collections per filled Full-Time Equivalent (FTE)" does not include Other Personal Services (OPS), contract, or some staff positions outside the Program as part of the FTE calculations even though these individuals perform Program functions. The Department contracts with private firms to perform audit and collections activities and has been using more OPS staff for processing tax returns. If contract and OPS staff were included in the calculation for this measure, Program performance would be lower than the reported data indicates. Department staff said OPS and staff positions outside the Program could be added to the measure, but calculating FTE equivalents for contract staff would be difficult. However, the Department would have a more accurate representation of the return-on-investment of its collections efforts if it included in this measure all staff who perform tax administration activities. Alternatively, the Department could compare collections to Program costs.

Second, the outcome measure "percent of billed amounts that are collected by the Department" overstates the Department's collections efforts on sales tax bills for several reasons. For example, returned items (e.g., bounced checks for sales tax related

transactions such as registration fees and tax payments) are included in the calculation for this measure even though bounced checks are not bills. Given that the Program has a higher collection rate for returned items (i.e., 37.3%) than for bills (i.e., 26.4%), including returned items in this measure inflates the reported performance on the percentage of billed amounts collected. Another problem is that bill payments include accumulated interest while the billed amounts do not, which also overstates the collection rate on sales tax bills.<sup>3</sup> In addition, the methodology for calculating this measure has changed each year and data in the prior years has not been adjusted to reflect these changes, which impairs comparisons of collection performance for sales tax bills over time.<sup>4</sup>

**Accuracy of Performance Data.** The Department reported reasonably accurate performance data in its legislative budget request for most of the 12 measures. (See Exhibit 2.) The performance data for 9 measures was either accurate or had a reporting error of less than 5%. However, there were significant accuracy errors for the remaining 3 performance measures (Department-initiated educational contacts with taxpayers, number of taxpayers filing/payment assistance provided, and percent of billed amounts that are collected by the Department). For example, the Department had not collected complete information for several months on the number of educational contacts made. The Department also made errors in calculating the number of taxpayers filing/payment assistance provided.

**Reasonableness of Performance Standards.** Eight of the 12 measures did not have reasonable performance standards for evaluating Program performance. (See Exhibit 3.) Four of the 12 measures had standards that appeared reasonable given Program performance in prior years. However, 5 of the remaining measures had standards that were too high or difficult to achieve and three had standards that were too low and thus easy to achieve.

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<sup>3</sup> Interest on owed taxes continues to accumulate after bills are mailed until the taxpayer pays the owed tax including the accumulated interest. Thus, the original billed amounts can be lower than the amount that the taxpayer ultimately owes due to the accumulated interest.

<sup>4</sup> For example, in fiscal year 1994-95 the sales tax bill payment figures included payments for returned items related to all taxes, not just sales tax, but the 1995-96 payment figures on returned items were limited to sales tax.

**Exhibit 2**  
**Most of the General Tax Administration Program Measures**  
**Were Accurate and Valid Indicators of Program Performance**

Measure	Department Reported Performance for 1995-96	OPPAGA Verified Performance for 1995-96	Is the Reported Data Accurate?	Valid Indicator of Performance?
<b>OUTPUTS:</b>				
Total collections: Department-administered taxes (tax, penalty, and interest)	\$18,734.6 million	\$18,734.6 million	Yes	Yes, indicates level of overall collections
Total involuntary collections (tax, penalty, and interest)	\$588.2 million	\$566.1 million	Substantially accurate	Yes, indicates level of enforced tax collections
Total voluntary collections (tax, penalty, and interest)	\$18,146.4 million	\$18,168.5 million	Substantially accurate	Yes, indicates dollars remitted with tax returns
Number of taxpayer filing/payment assistance provided	1,791,867	2,140,089	No, measure calculation changed	Yes, indicates volume of taxpayer-initiated contacts for assistance
Department-initiated educational contacts with taxpayers	32,844	35,509	No	Yes, indicates Department efforts to educate taxpayers
Number of delinquency notices issued	826,560	835,958	Substantially accurate	Yes, indicator of workload due to non-filing taxpayers
Number of billings issued because of an incorrect payment by the taxpayer	599,436	605,179	Substantially accurate	Yes, indicator of workload due to Department-determined taxpayer payment errors
<b>OUTCOMES:</b>				
Total collections per filled Full-Time Equivalent position (tax, penalty, and interest)	\$8,028,402	\$8,028,402	Yes	No, overstates performance on return-on-investment
Average number of days from receipt of payment to deposit	0.62	0.62	Yes	Yes, indicator of timeliness of deposits
Percent of returns filed accurately and timely by all filers	76.4%	76.5%	Yes	Yes, indicator of effectiveness of Department in reducing taxpayer errors
Percent of bills and delinquency notices issued accurately by the Department	88.2%	87.6%	Substantially accurate	Yes, indicator of tax collection efficiency
Percent of billed amounts that are collected by the Department (tax, penalty, and interest)	33.99%	29.9%	No	No, overstates performance for collection of owed sales taxes

Source: Department of Revenue 1997-98 Legislative Budget Request, Schedules D-2 and D-2A, and Program records.

**Exhibit 3**  
**Two-Thirds of the General Tax Administration Program Performance Standards**  
**For Fiscal Year 1995-96 Do Not Reflect Reasonable Benchmarks for Evaluating the Program**

Measure	Fiscal Year 1993-94	Fiscal Year 1994-95	Fiscal Year 1995-96	1995-96 GAA Standard	Standard Reasonable?	Performance Improvement in Fiscal Year 1995-96?
<b>OUTPUTS:</b>						
Total collections: Department-administered taxes (tax, penalty, and interest)	<b>\$15,135.9 million</b>	\$17,439.7 million	\$18,734.6 million	\$18,243.9 million (more is better)	Yes	Yes
Total involuntary collections (tax, penalty, and interest)	N/A	\$553.8 million	\$566.1 million	\$696.9 million (more is better)	No, too difficult	About the same
Total voluntary collections (tax, penalty, and interest)	N/A	\$16,885.9 million	\$18,168.5 million	\$17,547.0 million (more is better)	Yes	Yes
Number of taxpayer filing/payment assistance provided	<b>1,073,798</b>	2,170,657	2,140,089	1,139,192 (less is better)	No, too difficult	About the same
DOR-initiated educational contacts with taxpayers	<b>21,052</b>	29,151	35,509	14,837 (more is better)	No, easy to achieve	Yes
Number of delinquency notices issued	<b>1,027,490</b>	852,856	835,958	1,183,165 (less is better)	No, easy to achieve	About the same
Number of billings issued because of an incorrect payment by the taxpayer	<b>712,379</b>	812,130	605,179	733,751 (less is better)	Yes	Yes
<b>OUTCOMES:</b>						
Total collections per filled Full-Time Equivalent position (tax, penalty, and interest)	<b>\$7,411,227</b>	<b>\$7,318,701</b>	\$8,028,405	\$9,275,693 (more is better)	No, too difficult	N/A, invalid measure
Average number of days from receipt of payment to deposit	0.92	0.89	0.62	0.95 (less is better)	No, easy to achieve	Yes
Percent of returns filed accurately and timely by all filers	<b>80.5%</b>	74.95%	76.5%	84.8% (more is better)	No, too difficult	About the same
Percent of bills and delinquency notices issued accurately by the Department	<b>91.3%</b>	91.0%	87.6%	93.2% (more is better)	Yes	No
Percent of billed amounts that are collected by the Department (tax, penalty, and interest)	(1)	(1)	29.9%	82.0% (more is better)	No, too difficult	N/A, measure calculation changed

**Bold print indicates the number has not been verified.**

(1) Methodology change each year impairs comparisons of performance to prior years.

Source: General Appropriations Act and Summary Statement of Intent of Fiscal Years 1995-96 and Program records.

For example, the standard for the output measure “number of delinquency notices issued” was easy to achieve because performance in the previous two years had already exceeded that standard. In contrast, the standard for the percent of returns filed accurately and timely by all filers was set at a level that was too difficult to achieve when compared to performance in prior years. Although these eight standards were requested by the Department in its legislative budget request and adopted by the Legislature, they do not reflect reasonable benchmarks for evaluating Program performance.

The Department develops its standards based on performance in prior years and expected Program improvements, but had difficulties developing reliable standards for its 1995-96 measures due to several problems. For example, the Department did not have accurate performance data for prior years to use in setting standards for some measures. Since the performance standards are developed by Department staff about a year prior to adoption by the Legislature due to the budget development, the Department should ensure that its standards are updated to reflect current performance. However, the Department did not update its standards for 1995-96 prior to adoption by the Legislature. As a result, its standards were sometimes too low or high given its performance in the prior year. Another problem is that Department staff responsible for establishing the standards in some cases did not consult with Program staff when setting standards. Because of these problems, the Department submitted revisions to 11 of the 12 standards for the 1995-96 measures. Although some of the standards were improvements over the original standards, the Governor’s Office did not approve these revisions and the Department had to abide by the originally adopted standards.

#### **What improvements can be made to the Program’s performance-based program budgeting measures and standards for fiscal year 1997-98?**

The Department could improve its performance measures by modifying 12 proposed measures to provide more complete information. Standards for 6 measures are not reasonable and should be adjusted downward.

The measures for the General Tax Administration Program have changed each year. The 1996-97 measures have 24 outcome measures and include 4 of the 5 outcome measures identified in the 1995-96 General Appropriations Act; the percentage of bills and

delinquency notices issued accurately by the Department was replaced with the measure “percent of bills and delinquency notices issued incorrectly due to Department error.”<sup>5</sup> This measure is essentially the same as the one it replaced, except that the new measure only captures errors made by the Department and not by taxpayers. Seventeen new outcome measures were added, including measures for the compliance enforcement and adjudication functions. The Department has requested that the Legislature allow the Program to continue operating under performance-based program budgeting in fiscal year 1997-98 and has proposed performance standards for 21 outcome measures. The Department has proposed deleting 3 of the 1996-97 measures and modifying 2 other 1996-97 measures.

The 21 measures proposed for fiscal year 1997-98 cover key functional activities of the Program. However, the measures for the major functional activities could be improved to enable conclusions about overall Program performance to be made. For example, we found problems with 12 of the proposed measures and make suggestions for improving these measures. (See Exhibit 4.)

Of the 21 measures proposed for fiscal year 1997-98, standards for 14 measures appear reasonable and standards for 4 measures need minor adjustments because they appear a little high. The four measures that need minor adjustments are:

- “The percent of filers delinquent more than once in the past six months;”
- “Average number of days to resolve a protest case;”
- “Total involuntary collections per downstream filled FTE;” and
- “Bills that produce revenue as a percent of all bills mailed.”

The standards for the measures “total collections per filled FTE” and “bills issued for math errors as a percent of all returns processed” appear high when compared to performance in prior years. Further, we could not determine the reasonableness of the standard for the measure “percent of billed amounts collected” due to changes the Department made in how this measure is calculated.

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<sup>5</sup> The seven output measures from the prior year were not included as measures for the Program in the fiscal year 1996-97 General Appropriations Act.



**Exhibit 4**  
**Recommendations to Improve Proposed 1997-98**  
**Performance-Based Program Budgeting Measures for the General Tax Administration Program**

<b>Outcome Measures</b>	<b>Explanation</b>	<b>Recommendations for Improvement</b>
Total collections per filled FTE (tax, penalty, and interest for all taxes)	Indicator of Program return-on-investment	Include all Program staff performing collections activities in FTE calculation (e.g., OPS, contract, and staff outside the Program) or compare collections to Program costs
Average number of days from receipt of payment to deposit (sales, corporate, intangible, motor fuel taxes)	Indicator of how quickly dollars are deposited in the bank	None - Appropriate measure
Percent of returns filed accurately and timely by all filers (sales tax only)	Indicator of the Program's effectiveness in reducing taxpayer errors that result in bill and delinquency notices	Consider including other taxes (e.g., corporate income, fuel, intangible) to provide a more complete indicator
Percent of bills and delinquency notices accurate when issued (sales tax only)	Indicator of tax collection efficiency	Consider including other taxes (e.g., corporate income, fuel, intangible) to provide a more complete indicator
Percent of billed amounts collected - (tax only on sales tax)	Indicator of Program's efficiency in collecting amounts owed from sales tax bills	Modify measure to include penalty, interest, and accumulated interest for billed amounts. Include only bills and consider adding other taxes (e.g., corporate income, fuel, intangible) to provide a more complete indicator
Accuracy of initial revenue distribution to local governments (sales and fuel taxes)	Indicates the percentage of dollars distributed to local governments in a timely manner	None - Appropriate measure
Length of time between initial and final DOR monthly tax distributions (sales, corporate, fuel, and intangible taxes)	Indicator of delays in auditing sales tax returns causing final distribution adjustment amounts to local governments to be deferred	None - Appropriate measure
Percent of bills and delinquency notices requiring correction (sales, fuel, corporate, and intangible taxes)	Indicator of tax collection efficiency	None - Appropriate measure
Bills issued for math errors as a percent of all returns processed (sales, fuel, corporate and intangible taxes)	Indicator of taxpayer performance in completing tax return as well as Department's effectiveness in reducing taxpayer errors through education and form revision	None - Appropriate measure
Percent of accounts with bill or delinquency notice and two similar problems in prior six months (sales tax)	Indicator of tax collection efficiency and Department's ability to influence behavior of repeat offenders	Appropriate measure; but data collection methods need to be improved to ensure data accuracy

*(Continued on next page)*

**Exhibit 4 (Continued)**  
**Recommendations to Improve Proposed 1997-98**  
**Performance-Based Program Budgeting Measures for the General Tax Administration Program**

Outcome Measures	Explanation	Recommendations for Improvement
Percent of filers with math errors more than once in past six months (sales tax)	Indicator of taxpayer performance in completing tax return as well as Department's effectiveness in reducing taxpayer errors through education	None - Appropriate measure
Percent of filers delinquent more than once in the past 6 months (sales tax)	Indicator of tax collection efficiency and Department's ability to influence behavior of repeat offenders	Modify measure to include taxpayers who are currently delinquent and have been delinquent at least once in the past six months
Dollars collected voluntarily as a percent of total dollars collected (all taxes)	Ratio of voluntarily remitted dollars to total remitted dollars	Should not be represented as a voluntary compliance measure because the denominator does not consider total dollars that should have been remitted (i.e., adding an allowance for the tax gap)
Percent of returns not generating a bill - all filers (sales tax)	Indicator of workload and taxpayer performance in remitting correct payments	None - Appropriate measure
Average number of days to resolve a protest case (all taxes)	Indicator of taxpayer burden and timeliness of the Department in resolving taxpayer disputes	None - Appropriate measure
Average number of days from validation to mailing of first notice bills (sales tax)	Indicator of efficiency of Program staff in receiving and reviewing returns, determining unpaid liability, and issuing bills on a timely basis	Include other taxes (e.g., corporate income, fuel, intangible) to provide a more complete indicator
Percent of bills and delinquency notices mailed that produce a request for assistance (sales, fuel, corporate, and intangible taxes)	Phone or correspondence requests for assistance from first or second notices mailed. Indicator of Program's effectiveness at reducing taxpayer burden through readability of forms/notices	None - Appropriate measure
Total involuntary collections per downstream-filled FTE (all taxes)	Indicator of Program return-on-investment for involuntary collections, which include dollars collected from auditing, collections, and compliance enforcement activities	Include all Program staff performing involuntary collections in FTE calculation (e.g., contract and OPS staff) or compare collections to Program costs
Percent of initially assessed liability collected, excluding bankruptcies (tax only on all taxes)	Indicator of Program's ability to correctly identify and collect initial audit assessments	Measure on a tax, penalty, and interest basis to reflect Program's effectiveness in collecting the total liability
Percent of final identified audited liability collected (tax only on all taxes)	Indicator of Program's ability to correctly identify and collect final (post-protest) audit assessments	Measure on a tax, penalty, and interest basis to reflect Program's effectiveness in collecting the total liability
Bills that produce revenue as a percent of all bills mailed (sales tax)	Indicator of tax collection efficiency. Number of full and partial bill payments as a percentage of total bills issued	Appropriate measure; but data collection methods need to be improved to ensure data accuracy

Source: The Florida Legislature, Office of Program Policy Analysis and Government Accountability.

## Conclusions and Recommendations

The General Tax Administration Program's 1995-96 measures and standards provide some useful indicators for assessing Program performance in processing tax returns and payments. However, four problems limit the usefulness of these measures and standards for assessing Program performance. The measures are not comprehensive and some measures are not valid. In addition, some measures report inaccurate performance data, and most measures have unreasonable standards.

The performance measures indicate that the Department has increased total collections by over \$3 billion over the past three fiscal years. Although, these are positive results, it is unclear whether this increase should be attributed to Department collections efforts or more to generally improved economic conditions. The measures showed some increased efficiency in processing returns and depositing taxes, but did not show improvements in the accuracy of bills and delinquency notices issued. The performance measures also showed some improvement in taxpayer education, but no significant improvement in assistance efforts. However, we were unable to draw any conclusions about the Program's performance for the compliance enforcement and adjudication functions due to a lack of outcome measures.

The Department has requested that the Legislature allow the Program to continue operating under a performance-based budget in fiscal year 1997-98 and has proposed performance standards for 21 outcome measures. To ensure that measures are valid, we recommend that the Legislature consider revising some of these performance measures. (See Exhibit 4.) To ensure that the Department provides the Legislature and the Governor with reliable information about Program performance, we recommend that the Department develop a process for reviewing the accuracy of performance data before including this information in its legislative budget requests. In addition, to ensure comparability of performance data over time, the Department should adjust its baseline and historic performance data when it changes its methodology for calculating the data for a given measure.

## Agency Response

The Executive Director of the Department of Revenue provided the following written response to our review.

OPPAGA found that, "*The measures are not sufficiently comprehensive.*". The Department agrees that two of GTA's business processes were not included in the 12 FY 1995-96 legislatively-monitored measures. It should be noted, however, that the Department maintains a complete set of comprehensive measures that provide a variety of outcome-based performance results for all of GTA's core process operational areas. These measures are used for internal management purposes. The Department's 24 "Legislative Measures" currently in place for FY 1996-97, as well as the 19 measures recommended for inclusion in the 1997-98 GAA, provide a comprehensive representation of all GTA operational business processes.

OPPAGA found that the Department increased its educational contacts with taxpayers but states that these activities resulted in only a "*slight improvement*" in the accuracy and timeliness of tax returns filed "*from 75% in fiscal year 1994-95 to 76.5% in fiscal year 1995-96.*" However, this represents a reduction in the taxpayer "error rate" by a full 6 percent in a single year. (The "error rate" was decreased from 25% to 23.5% which is a 6% improvement.) This reduction means that nearly 90,000 more tax returns were filed accurately and timely in 1995-96 than in 1994-95. DOR's Strategic Plan calls for a 15% reduction in agency and taxpayer errors by June 30, 1999.

OPPAGA recommends "*. . . the Department (should) develop a process for reviewing the accuracy of performance data before including this information in its legislative budget requests.*" The Department agrees with this recommendation and has already put into place appropriate resources and requests for mainframe computer programming for this aspect of its measurement process. Many of the inaccuracies resulted from the Department becoming the first state agency to operate under a Performance Based Program Budgeting System. The Department developed over two-hundred measures of GTA's processes in a very short time frame without a mainframe computer system specifically designed to produce the necessary outcome-based reports and information. Two full-time analyst positions were created in GTA in 1996 to both coordinate reporting efforts and provide a level of

review and analysis of the General Tax Administration Program measures and standards on an on-going basis. Additionally, GTA is currently thoroughly documenting how each measure is extracted and compiled which will further ensure the accuracy of its reported measures.

OPPAGA also recommends that “. . . over time, the Department should adjust its baseline and historic performance data when it changes its methodology for calculating the data for a given measure.” The Department agrees with this recommendation, and believed it had made such adjustments. Two of the exceptions are instances where a process change unknowingly alters the meaning of reported data, and cases where adjustments require extensive mainframe computer programming. In instances where no programming is required, historic and baseline data are adjusted immediately upon the change becoming documented. During the OPPAGA review, most inaccuracies in our reported measures noted by OPPAGA were immediately incorporated into our baseline data to ensure consistency of our reported measures over time.

OPPAGA states, “Eight of the 12 measures did not have reasonable standards...”. The Department agrees that seven of the 1995-96 standards, in retrospect, may not have been practical. As pointed out by OPPAGA, these situations arose primarily from the fact that standards were set more than one year in advance and no mechanism was in place at that time to update the standards. OPPAGA also correctly notes that the Department did not have accurate performance data for prior years for use in setting the standards. Since the Department had only begun its efforts to evolve to a performance-based budgeting system during the prior fiscal year, much of the baseline data necessary to establish reasonable performance levels did not yet exist.

Since the setting of the initial standards in 1995-96, Department staff have worked closely with legislative staff during the 1996 Legislative session to arrive at a consensus for measures and performance standards for 1996-97. Development of proposed standards for 1997-98 continued beyond the Legislative Budget request submission and the results of these efforts appear in the Governor’s Budget Recommendations Performance Ledger 1997-98.

This project was conducted in accordance with applicable evaluation standards. Copies of this report may be obtained by telephone (904/488-1023 or 800/531-2477), by FAX (904/487-3804), in person (Claude Pepper Building, Room 312, 111 W. Madison St.), or by mail (OPPAGA Report Production, P.O. Box 1735, Tallahassee, FL 32302). Web site: <http://www.state.fl.us/oppaga/>

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