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# Follow-up Report



April 1999

Report No. 98-77

## General Tax Administration Program Improves Collection But Not Audit Methods

### *at a glance*

In response to our justification review, the department has undertaken several initiatives to improve its efficiency and effectiveness in collecting tax revenues. For example, the department has improved its timeliness in processing intangible tax receipts, resulting in a net increase of \$228,864 in revenue.

However, the department has not implemented our recommendation to change its audit strategy in order to increase audit recoveries. The department has continued to employ an audit selection strategy that achieves 80% coverage of the taxes remitted to the department. We believe that the department could generate an additional \$30.5 million in audit recoveries if it examined the rate of return received from audits of different types of tax accounts and increased coverage for the types of accounts that produce the highest return.

### Purpose

In accordance with state law, this follow-up report informs the Legislature of actions the Department of Revenue took in response to our 1997 report.<sup>1,2</sup> This report presents our assessment of the extent to which the department has addressed the findings and recommendations included in our prior report.

### Background

The Department of Revenue administers the General Tax Administration Program, which involves the collection of 36 taxes, including sales, corporate income, intangible property, and fuel taxes. According to s. 213.01, F.S., the Legislature intends for the revenue laws of the state to be administered in a fair, efficient, and impartial manner. The General Tax Administration Program comprises six major functions: taxpayer education and assistance, tax return processing and reconciliation, collections, audit, compliance enforcement, and adjudication. The primary goal of these functions is to timely, accurately, and fairly collect owed taxes.

<sup>1</sup> Section 11.45(7)(f), F.S.

<sup>2</sup> *Program Evaluation and Justification Review of the General Tax Administration Program Administered by the Department of Revenue*, [Report No. 96-89](#), June 1997

## Prior Findings

In our 1997 justification review, we found that the department had improved the efficiency and effectiveness of the General Tax Administration Program and had collected more tax revenues with fewer staff. For example, from Fiscal Year 1994-95 to Fiscal Year 1995-96, total tax collections increased by more than 7% while full-time equivalent positions assigned to the program declined by about 7%. However, we found that the department could further improve the efficiency and effectiveness of the General Tax Administration Program in two ways.

- **Give more emphasis and focus to its auditing and compliance enforcement functions.** The department's emphasis on taxpayer education and assistance activities appeared to produce a positive impact on voluntary compliance as evidenced by improvements in the percentage of taxpayers who timely and accurately file their tax returns. However, its performance in the tax auditing and compliance enforcement functions had declined. Improving these tax collection functions would not only increase the state's net revenue from involuntary collections, it would also be likely to increase voluntary collections by encouraging more taxpayers to comply with tax laws.
- **Provide more balance between sales tax and other major taxes.** The department's focus on collecting sales tax limited its performance in collecting other major taxes. As a result, its performance in collecting and processing sales tax exceeds its performance in collecting and processing other major taxes. We recommended that the department concentrate more effort on these other major taxes. For example, the department could increase total revenues collected through the audit function by shifting audit resources

from sales taxpayers to corporate and intangible taxpayers. We also recommended that the department contract with private vendors to handle the peak workload associated with corporate and intangible taxes and to augment its efforts to collect taxes from corporate and intangible taxpayers that have not paid the taxes they owed.

## Current Status

The General Tax Administration Program has continued to improve its efficiency and effectiveness in collecting tax revenues by implementing our recommendations for several major functions, including taxpayer education and assistance, tax returns processing and reconciliation, collections, and compliance enforcement. As a result, total collections per dollar spent have increased from \$139.38 in Fiscal Year 1995-96 to \$143.85 in Fiscal Year 1997-98.

### *Taxpayer education and assistance has improved.*

For the taxpayer education and assistance function, we recommended that the department use the results of its taxpayer education and assistance studies to improve its performance and timeliness in informing taxpayers of changes in tax administration requirements. Since our last report, the department has reviewed information provided by attendees of its taxpayer education workshops in order to target specific industries to increase the effectiveness of these workshops. In addition, the department implemented new procedures in Fiscal Year 1996-97 that were designed to ensure timely notification of changes to tax requirements.

### *The tax returns processing and reconciliation process has become more efficient.*

For the tax returns processing and reconciliation function, we found that the department could improve its timeliness in processing intangible and corporate tax

payments and returns. As a result of initiatives it took since our last report, the department improved its timeliness in making deposits of intangible tax receipts from 2.89 days in Fiscal Year 1996-97 to 1.87 days in Fiscal Year 1997-98. This improvement in the timeliness in making deposits resulted in a net increase of \$228,864 in revenue. The department grossed \$342,525 in additional interest earnings at a cost of \$113,661. In addition, the department has implemented a corporate tax return short form for taxpayers with lower taxable incomes, which should improve its processing of corporate income taxes.

***The department is implementing plans to improve the tax collection process.***

To improve its bill collection process, we recommended that the department use a risk-based collection strategy. The department has reported plans to issue a Request-for-Proposal for a risk-based collection program and an automated case selection program. The department is also including a risk-based profiling capability in its requirements for the System for Unified Taxation (SUNTAX) project's financial package.

To further improve its tax collection process, we recommended that the department refer accounts that exceed internal collection capacity or are labor intensive to contract collection agencies. The department has recently completed a pilot program with tax collectors from five counties for the purpose of collecting delinquent intangible taxes, penalties, and interest. The pilot program produced positive results with a reported return-on-investment ratio of approximately 4:1. Bills in the amount of \$391,222 were referred to county tax collectors. The department grossed \$87,797 in revenue and incurred \$22,245 in costs for a net return of \$65,552.

The department is also documenting the collection process and developing a comprehensive resource plan that will

include analyzing the productivity of the collection agencies and tax collectors currently assisting the department. In addition, the department is implementing activity based cost analysis. The initial cost analysis for collections is expected to be completed in the first quarter of 1999 and will be used to compare collection efforts in the department with contracted collectors.

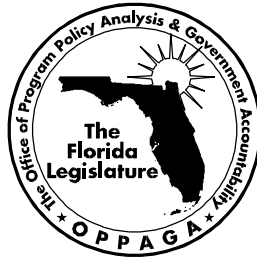
The department has incorporated our recommendation in its plan to improve the performance of the compliance enforcement process. We recommended that the department target available compliance enforcement resources to areas with the greatest potential for collecting owed taxes. The department has developed an Enforcement Operations Work Plan that is designed to shift resources toward areas with higher returns on investment. The plan contains detailed information concerning allocations of compliance enforcement staff and will provide managers with the ability to use direct collections as a factor in allocating compliance enforcement resources.

***The department has not adopted our recommendation to change its audit strategy in order to increase audit recoveries.***

We recommended that the department examine the rate of return it receives from audits of different types of tax accounts and increase coverage for the types of accounts that produce the highest return. The department has continued to use its strategy to cyclically review/audit the taxpayers with the highest tax remittances to provide assurances to the Legislature that approximately 80% of the Florida's tax remittances are regularly verified. We believe that this strategy results in fewer audit recoveries and have estimated that an audit selection policy based on maximizing revenue per available audit hour could generate an additional \$30.5 million in audit recoveries.

# The Florida Legislature

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