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INTERIM

MANAGEMENT AND ADMINISTRATIVE REVIEW

REVENUE GROUP

MOTOR VEHICLE DIVISION

DEPARTMENT OF TRANSPORTATION

SEPTEMBER, 1975

MANAGEMENT SERVICES

DEPARTMENT OF ADMINISTRATION

DEPARTMENT OF ADMINISTRATION
OFFICE OF THE DIRECTOR

STATE OF ARIZONA

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The following is an interim report on the management survey of the Revenue Group of the Motor Vehicle Division, recently conducted by the Management Services Section of the Department of Administration. This report covers the Tax Revenue Section. The cashier, accounting and payroll activities within the Revenue Group will be analyzed in the second phase of this survey.

Our methods involved flow charting all activities, extensive sampling and discussions with most of the staff about their activities.

Items sampled included:

1. Account files and ledger cards
2. Vendor credits versus vendor tax collected
3. Audit request files
4. Audit assessments
5. Audits

In addition, research was conducted and is continuing as to industry trends, other states' approaches to transportation taxes, and alternatives to existing methods of taxation.

The report is presented in four sections.

Gas Tax Collection and Auditing
Use Fuel and Gross Receipt Tax Processing
Use Fuel and Gross Receipts Tax Auditing, and
General Comments

The report summarizes the findings and recommendations included in our presentation to you on August 21. Many of the recommendations are already in the process of implementation.

The Section's staff has cooperated fully in the survey. In addition they have made numerous suggestions for improvements and have been receptive to suggested changes.

Respectfully submitted,

P. K. Stoufer

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Encl.

GAS TAX COLLECTION AND AUDITING

The Gas Tax is an extremely efficient tax to collect and control. Two persons perform reviews of reports and collect an average of $8,000,000 per month while five process refunds of approximately $160,000 per month. This is an easy tax to monitor since it is imposed on the few importers of all gasoline into Arizona. Record keeping is simple and easily processed.

FINDINGS:

The refund activity could be improved by:

(a) Test audits of importer accounts and refund accounts.

(b) Developing alternatives to the refund process, such as:

1. Elimination of import tax on aviation fuel which is entirely refundable.
2. Provide for refunds through income tax credits similar to the Federal System.
3. Elimination of refunds entirely.

RECOMMENDATIONS:

- Perform test audits.
- Reassign one position to the newly formed account control unit.
- Explore the alternatives noted above and seek appropriate legislation.

USE FUEL TAX AND GROSS RECEIPT TAX PROCESSING

In contrast to the gas tax, these taxes are costly and difficult to collect and monitor. The tax is based on reported highway usage and revenues and requires extensive record keeping and reporting by vendors, truckers and the State. The after-the-fact reporting results in a need for expensive audits and controls.

FINDINGS:

Tax processing is an activity trap which emphasizes the process rather than tax collection. Specifically:

(a) The Performance, Analysis and Realization Report (PAR Report) is a time-consuming report that stresses activities instead of revenue collection and is not cost justified.

(b) There are excessive checks and balances in the manual process.

(c) There is an insufficient number of calculators for clerks who must do multiplication and division checks on tax reports.

(d) Documentation is inadequate for policies and procedures.

(e) Files are clogged with inactive and closed accounts.

(f) There is a need for a centralized customer service activity to provide accurate and consistent information assistance on the tax requirements.

(g) There is an opportunity for improved efficiency and timeliness through the automation of tax processing.

(h) There are no formal account receivable collection procedures beyond use of surety bonds on interstate carriers.

RECOMMENDATIONS:

- Suspend the PAR Report substituting a simplified management report which emphasizes tax collection results.

- Streamline the system:

    Eliminate balancing of POE Reports.
    Revise balancing procedures.
    Reduce numerous logs.

- Purchase calculators for preauditors.

- Develop a Policy and Procedures Manual.

- Clean out tub files.

- Establish an account control section from staff currently performing unnecessary clerical functions.

- Establish a service representative position to handle customer assistance activities.

- Pursue automation of the process.

- Develop and execute a formal account receivable plan.

USE FUEL TAX AND GROSS RECEIPTS TAX AUDITING

As noted above, the tax is difficult to collect and police. It depends on the honesty of the trucking firms to report fuel usage and revenues. As a result, extensive auditing is necessary to police the system.

FINDINGS:

(a) Priorities emphasize the audit of closing accounts and refunds rather than accounts with a high potential for assessments and collection.

(b) Audit requests are not expeditiously handled.

(c) Auditors spend too much time on clerical activities which could be performed by lower paid clerks.

(d) There is no audit manual which leads to a wide variation in audit procedures.

(e) The vendor tax credit system does not match vendor credits claimed by carriers with taxes collected by vendors. However, a six month test of vendor credits did not indicate gross credits claimed in excess of gross tax collected.

RECOMMENDATIONS:

- Revise the audit priorities to emphasize audits of accounts with a high potential for tax assessment and collection.

- Establish an account control unit in the tax processing section to perform in-house clerical audits and collection activities.

- Prepare an audit manual and train auditors in standardized audit procedures.

- Investigate a state controlled vendor use fuel form.

GENERAL COMMENTS

- The audit function should be placed directly under the Revenue Group manager to improve the integrity of the audit activity and improve administrative control.

- The staff should not be increased until the effect of the reorganization and revised procedures can be properly evaluated.

- The following would improve efficiency:

  1. Batch mailings of report forms.

  2. Emphasize quarterly reporting.

  3. Expand the automated POE Report to include cumulative totals.

  4. Direct mail refund warrants.

  5. Reduce the number of port restraints to a manageable and effective number.

A P P E N D I X

DATA TABLES

These tables summarize the detailed testing conducted during the management survey of the Tax Revenue Section.

Most tables are summaries of more detailed tables designed to highlight the important implications.

Sample size was designed to provide the necessary reliability to address the test question.

TABLE I

Test Question: How are the account balances distributed between debit, credit and zero balances?

	USE FUEL (UF) % OF ACCOUNTS	USE FUEL (UF) DOLLARS	MOTOR CARRIER (MC) % OF ACCOUNTS	MOTOR CARRIER (MC) DOLLARS
Credit Balance	55.1	($408,530)	21.5	($37,444)
Zero Balance	29.2	-0-	63.4	-0-
Debit Balance	15.7	$912,852	15.1	$41,835
Total	100		100	

FINDINGS:

1. The large credit balances in the UF column are basically due to vendor credits claimed.

2. The UF accounts in general appear, from a dollar standpoint, to require more staff effort than the motor carrier group. In terms of total accounts there are approximately 10,000 fuel accounts to 6,000 motor carrier accounts; a 1.7:1 ratio. However, the dollar receivable ratio is 9:1 and the dollar payable is 20:1, both in favor of the fuel accounts.

TABLE II

Test Question: What is the effect of auditing accounts on the distribution of account balances:

	USE FUEL ACCOUNT BALANCE PRE-AUDIT	USE FUEL ACCOUNT BALANCE POST AUDIT	MOTOR CARRIER ACCOUNT BALANCE PRE-AUDIT	MOTOR CARRIER ACCOUNT BALANCE POST AUDIT
Credit Balance	60.3	16.7	19.5	7.5
Zero Balance	30.2	15.2	74.0	23.8
Debit Balance	9.5	68.1	6.5	68.7
Total	100	100	100	100

TABLE II - (cont)

FINDING:

This indicates that many carriers require auditing and that a vigorous auditing and collection program would yield significant benefits.

TABLE III

Test Question: Do a select few of the largest taxpayers account for a large percentage of taxes paid?

1. Relation between the largest taxpayers and total taxes paid - the highest 1.2% of accounts pay 56.8% of the use fuel taxes

   the highest 3.0% of accounts pay 69.2% of the use fuel taxes

   the highest 4.8% of accounts pay 74.8% of the use fuel taxes

   the highest 12.3% of accounts pay 87.9% of the use fuel taxes

   the highest 19.1% of accounts pay 91.4% of the use fuel taxes

   (Note: The percentages are cumulative, that is, the 1.2% is included in the 3.0%, etc.)

2. The smallest 54.2% of accounts pay only 1.7% of dollars collected. (of these)
3. 23.7 percent of accounts during the six month test period filed no tax for any month.

FINDINGS:

1. This sample was UF accounts and excluded any PC accounts. Therefore the 23.7% of no tax accounts is only for active accounts.

2. If the top 20% of accounts (approximately 2,000 carriers) were audited regularly, that would cover at least 90% of the taxes paid. This is within present staffing capabilities.

3. A flat minimal tax amount could be levied against the large number of small taxpaying carriers.

TABLE IV

Test Question: Do a select few of the taxpayers owe the bulk of the account receivables?

TABLE IV - (cont)

0.1% of accounts owe 26 % of the total receivables

1.1% of accounts owe 65.3% of the total receivables

1.6% of accounts owe 73.6% of the total receivables

3.1% of accounts owe 87.6% of the total receivables

5.6% of accounts owe 96.3% of the total receivables

FINDINGS:

1. This analysis indicates that collection activities should be focused on identifying the largest accounts since such accounts owe the bulk of all receivables.

2. Audit assessments generate almost all the large dollar receivables. 97.6 percent of all receivables over $500 stemmed from an audit. Thus, these accounts can be easily identified and monitored.

TABLE V

Test Question: Are "PC accounts" being processed and closed in a timely manner?

Months Since Account PC'd	% OF PC ACCOUNTS	% OF ALL ACCOUNTS
36 & Over	8.4%	1.2%
30 & Over	18.4%	2.9%
24 & Over	35.5%	5.8%
18 & Over	39.8%	6.5%
12 & Over	58.5%	9.7%
6 & Over	77.2%	12.9%
0 & Over	100.0%	16.7%

FINDINGS:

1. For those PC accounts still in the active tubs the mean age is 16.6 months and the median age is 14 months.

2. At least ten percent of all accounts in the active tubs have been inactive over one year. At least 6% of all accounts have been inactive over two years.

TABLE V - (cont)

3. The lack of timely processing minimizes the chances of collecting any receivables for this group.

TABLE VI

Test Question: What is the processing status of these PC accounts?

** 36.6% of the PC accounts are not being processed due to being "dropped" by the system

8.6% due to bond claim problems

22.4% due to no audit request on file

1.7% due to posting errors

3.4% due to miscellaneous causes

** 22.0% of the PC accounts, though still in process, have experienced unnecessary processing time lags.

** 12.0% of the PC accounts, though in the active tubs, have been audited and are zero balances and should therefore have been closed

** 3.5% of the PC accounts should be designated as bad debts.

** 3.5% of the PC accounts were in fact reinstated but the ledger card was not changed to so indicate

** 23.0% of the PC accounts appear to be in process in a timely manner

FINDING:

This data was generated to determine what major problems existed in processing PC accounts. System weaknesses are evident above.

TABLE VII

Test Question: What type of documents and their average volumes are being processed in a ring-date?

1. Type of Document — Percent

Type of Document	Percent	
Monthly Taxpayer Reports	78.1	
W/MC Only		5.5
W/UF Only		25.5
W/ Both		23.2
No Activity Reports		23.9
Field Audits	11.3	
Vendor Reports	0.3	
Internally Generated	10.3	
JV		4.2
Taxpayer Notification		6.1
Total	100	

2.

DOCUMENTS	% INCOMING MAIL	% TOTAL RING DATE
W/ cash ring	56.5	48.2
W/O cash ring	43.5	51.8
	100	100

3. Approximately 37% of taxpayer reports are "no activity reports."

4. Taxpayer Report Data

1975 Annual Total	99,971
Peak Pay Average (received)	642
Low Pay Average (received)	213
Average Day (received)	406
Average Per Month (received)	8,300

FINDINGS:

1. Data in entries nos. 1, 2, and 3 indicate that a great deal of work and processing is concerned with documents that have no payment associated.

TABLE VIII

Test Question: What portion of accounts have not filed a current month tax report?

Accounts Delinquent (including PC accounts)	25%
Accounts Delinquent (excluding PC accounts)	7%

FINDING:

This is a work level indicator for account control

TABLE IX

Test Question: Do annual audits of vendors appear to be cost justified?

1. Total Account Sampled 57 (1/3 of population)

   Accounts Audited 43

   Accounts Not Audited 14

   Not Audited Due To:

New Account	11
PC Awaiting Audit	2
Eligible But Not Audited	1

2. Audit Results

RESULTS	# SAMPLE	$ TOTAL	$ AVERAGE
Credit	4	(2,536)	(634)
Debit	19	9,094	476
No Assessment	20	0	0
Net Totals	43	6,559	152

3. Three debit assessments (5% of accounts audited) realized 70% of the total debit assessments.

TABLE IX - (cont)

FINDING:

The policy of auditing all vendor accounts annually does not appear justified on the basis of this sample. A more selective approach appears warranted.

TABLE X

Test Question: Are carriers grossly overclaiming vendor credits when compared to vendor taxes paid?

Total vendor credits claimed and vendor taxes paid were tallied for six months. The results are:

Vendor Taxes Paid	$2,850,502
Vendor Credits Claimed	2,339,932
Underclaimed Difference	$ 510,570

FINDING:

Though individual carriers at times overclaim, the result of this tally indicates that carriers as a group underclaim.

TABLE XI

Test Question: How many surety companies are on record with unpaid claim balances?

	CLAIMS		DOLLARS	
	NUMBER	PERCENT	TOTAL	PERCENT
Total Claims in Suspense File	376	100	$229,580	100
Outstanding less than 90 Days	163	43	117,110	51
Outstanding over 90 Days	213	57	112,470	49
Of Those Outstanding Over 90 Days, The Number With Third Notice	52	14	35,598	15.5

FINDING:

The claims against surety companies are not processed from first claim to third claim in a timely manner. Few of the third notice claims are being referred to the Department of Insurance.