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PERFORMANCE AUDIT

DEPARTMENT OF REVENUE

TAXPAYER SERVICES DIVISION

Report to the Arizona Legislature
By the Auditor General
September 1985
85-10

DOUGLAS R. NORTON, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

September 25, 1985

Members of the Arizona Legislature
The Honorable Bruce Babbitt, Governor
J. Elliott Hibbs, Director
Department of Revenue

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Department of Revenue, Taxpayer Services Division. This report is in response to an April 27, 1983, resolution of the Joint Legislative Oversight Committee. The performance audit was conducted as a part of the Sunset Review set forth in A.R.S. §§41-2351 through 41-2379.

The report discusses how DOR could improve its level of service in assisting taxpayers with inquiries or tax problems. We recommend DOR rely less extensively on temporary employees, improve the quality of management information and develop comprehensive staff training. In addition, the report also addresses the need for improved bingo regulation and enforcement.

My staff and I will be pleased to discuss or clarify items in the report.

Respectfully submitted,

Douglas R. Norton

Douglas R. Norton
Auditor General

Staff: William Thomson
Peter N. Francis
Nancy Lovell
Anthony J. Guarino
Dennis B. Murphy
Patricia M. Krueger
Lucinda A. Trimble

Enclosure

2700 NORTH CENTRAL AVE. ● SUITE 700 ● PHOENIX, ARIZONA 85004 ● (602) 255-4385

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Revenue (DOR), Taxpayer Services Division in response to an April 27, 1983, resolution of the Joint Legislative Oversight Committee. This report, the fourth in a series on the Department of Revenue, was conducted as part of the Sunset Review set forth in Arizona Revised Statutes §§41-2351 through 41-2379.

The Department of Revenue created the Taxpayer Services Division in August 1983. The Division has three sections: Taxpayer Assistance which responds to taxpayer inquiries and resolves taxpayer problems; Bingo which licenses and regulates bingo operations; and Licensing and Registration which issues licenses and maintains license files for sales, use and other types of taxes. Prior to the Division's creation these duties were performed by Taxation Division staff.

Taxpayer Assistance Is Not Adequately Meeting Public Demand For Service (see pages 7-20)

The Taxpayer Services Section provides only minimal levels of assistance to the public. DOR's Taxpayer Assistance Section is responsible for resolving taxpayer problems and responding to taxpayer inquiries. To perform this function the Section maintains a phone unit, a correspondence unit and a walk-in office, with clerical/support staff. In its phone unit Taxpayer Assistance met less than 27 percent of the public demand (based on a 1-week study done by Mountain Bell). This compares with a 70 percent service level the IRS Regional Division has determined as a minimum level to meet public demand. In addition, although the Section's correspondence unit has a goal of responding to public correspondence within 30 days, a sample of cases shows the average time to respond to public correspondence is 51 days.

The Section's current level of service is a result of inadequate staffing and overdependence on temporary personnel. These factors have led to insufficient training, inadequate operating procedures and limited supervision. The Section has been staffed predominantly with temporary

personnel. As of May 1985 approximately 77 percent of the staff were temporary employees. The turnover rate for temporary workers is extremely high. A review of staff turnover during a 6-month period showed that 74 percent of the temporary staff stayed with the Section 6 months or less. Because the Section must continuously replace staff, it cannot realistically invest sufficient time in staff training. Consequently, training is substandard and employee productivity is reduced.

In addition, substandard performance also results from the Section's lack of an inclusive set of written procedures. Relying on informal, oral procedures reduces consistency and uniformity in the work. Further, some current procedures need to be revised to improve efficiency.

Finally, limited and unqualified staff supervision further impairs service efficiency. Employees have had to assume responsibilities for which they are not adequately paid and may not be qualified. In addition, giving too many responsibilities to a single supervisor has reduced effectiveness.

The Taxpayer Assistance Section is taking corrective steps to address these problems. However, more action is necessary. To improve its performance, DOR should: 1) upgrade its phone service by calculating public demand, and establishing adequate service and staffing levels, 2) develop a comprehensive training program, 3) examine, update and write operating procedures that are accessible to the staff, and 4) continue to improve the quality of its management information in order to evaluate its staffing needs and productivity. Finally, the Legislature should consider adopting Taxpayer Assistance's plans to increase and reclassify its full-time employee positions, which include additional levels of supervisory personnel and less dependence on temporary workers.

DOR Needs To Further Strengthen And Improve Bingo Regulation And Enforcement (see pages 21-32)

DOR can take additional steps to improve Bingo regulation and enforcement. Since its legalization in 1972, the operation of bingo has grown significantly. The Bingo Section Supervisor estimates total gross receipts from large game bingo in Arizona to be 40 million dollars annually. The cash nature of the bingo industry provides considerable potential for criminal activity. For example, a recent investigation alleges one large game licensee of skimming approximately $400 to $1,200 per bingo event and fraudulently using bingo net proceeds.

Recently DOR has increased its efforts to ensure compliance. Organizational and statutory changes in 1984 and 1985 have enhanced the Section's ability to regulate bingo operations. However, existing efforts by DOR are not adequate to detect and prevent criminal abuses by licensees.

To assist in detecting and verifying illegal activities, the Section should conduct audits and compliance visits, require licensees to maintain reports of each occasion bingo is played, and enforce A.R.S. §5-406.R which restricts volume discounts for paper bingo cards. Recent investigations indicate that such enforcement measures could identify skimming of receipts, unannounced bingo games and suspected improper use of bingo proceeds. Failure to use these methods impedes the Section's ability to verify gross receipts, establish misuse of bingo proceeds, and identify other illegal activities.

To further strengthen enforcement, the Section should conduct thorough background investigations of individuals applying for large game licenses. It's best option is to use the fingerprint application card system through the Arizona Criminal Justice Information System. All other computerized criminal history systems are inaccessible to DOR because of Federal and State agreements.

Finally, to provide DOR with greater flexibility in its enforcement efforts, the Legislature should consider adopting a multitiered licensing

system. The current licensing structure places equal requirements on all large game licensees regardless of their ranges of gross receipts. A multitiered system would categorize licensees by gross receipts. More stringent financial reporting and compliance requirements would be applied to those licensees that report higher gross receipts and therefore, have a greater opportunity to gain from illegal or fraudulent use of bingo proceeds.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Revenue, Taxpayer Services Division, in response to an April 27, 1983, resolution of the Joint Legislative Oversight Committee. This report, the fourth in a series on the Department of Revenue, was conducted as part of the Sunset Review set forth in Arizona Revised Statutes §§41-2351 through 41-2379.

The Department of Revenue (DOR) established the Taxpayer Services Division in August 1983. Taxpayer Services consists of three sections: Taxpayer Assistance, Bingo, and Licensing and Registration. Prior to the 1983 reorganization the various functions were performed by the Taxation Division. Auditing staff within Taxation responded to taxpayer inquiries. Licensing and registration, and bingo functions were also handled by various Taxation employees. In an effort to increase accountability however, DOR consolidated these activities and formed Taxpayer Services as a separate division.

In addition to the Taxpayer Assistance Section in Phoenix, the Tucson Division also performs taxpayer assistance functions. The Tucson Section is under the jurisdiction of the Assistant Director of the Tucson Division and is not responsible to the Assistant Director of the Taxpayer Services Division. (For more information regarding the Tucson Section and its performance, see page 33).

Organization And Personnel

The Taxpayer Services Division has approximately 148 staff, of which approximately one-half are temporary employees. A majority of the temporary staff works in the Taxpayer Assistance Section.

Taxpayer Assistance - As of September 1985 Taxpayer Assistance had 25 full-time permanent employees and approximately 64 temporary workers. Its major role is to respond to taxpayer inquiries and resolve taxpayer problems.

Taxpayer questions may range from tax filing dates and status of a refund, to problems such as errors in tax billings or improperly applied tax payments. The Section contains a phone unit, correspondence unit and clerical/support unit. In addition, the Section maintains a walk-in office to respond to visits by taxpayers. Table 1 details the Section's volume of work for fiscal years 1982-83 through 1985-86.

TABLE 1

TAXPAYER ASSISTANCE ACTIVITIES AND WORK LOAD
FISCAL YEARS 1982-83 THROUGH 1985-86

Activity	Actual 1982-83	Actual 1983-84	Actual 1984-85	Estimated 1985-86
Personal Visits by Taxpayers	11,886	15,641	14,272	14,000
Telephone inquiries	201,900	269,604	224,110	246,000
Correspondence Inquiries -				
Received	25,200	49,607	84,336	72,694
Resolved	21,415	49,721	73,651	48,080

Source: DOR Budget Request for fiscal year 1985-86

Bingo - The Bingo Section licenses large and small bingo operations in Arizona and enforces the bingo statutes. Although bingo games have been regulated since 1972, it was not until 1984 that DOR established Bingo as a separate section. The Section employs 13 full-time permanent employees in Phoenix and Tucson. In fiscal year 1984-85 the Section renewed 687 small and large game licenses, and issued 89 new licenses. In addition to issuing licenses and renewals, the Section performs investigations of suspected violations of bingo statutes. The Section also conducts compliance visits. Table 2 summarizes the Bingo Section's activities and work load for fiscal years 1982-83 through 1985-86.

TABLE 2

BINGO ACTIVITIES AND WORK LOAD
FISCAL YEARS 1982-83 THROUGH 1985-86

Activity	Actual 1982-83	Actual 1983-84	Actual 1984-85	Estimated 1985-86
New Large Licenses	18	10	20	20
New Small Licenses	19	10	69	75
Renewed Large Licenses	177	165	318	350
Renewed Small Licenses	265	143	369	440
Tucson Licenses (1)	249	251	-	-
Investigations (2)	5	6	13	8
Compliance Visits (2)	-	130 (3)	200 (4)	250

Source: DOR Budget Request Fiscal Year 1985-86

(1) Tucson records do not differentiate between large and small game licenses, or renewals and new licenses for fiscal years 1982-83 and 1983-84. For fiscal years 1984-85 and 1985-86 Tucson licenses are not identified separately.
(2) These figures do not include Tucson activities.
(3) 1/2 year, one investigator
(4) 9 months, four investigators

Licensing And Registration - The Licensing and Registration Section issues licenses and maintains license files for sales, use, withholding, tobacco and cannabis taxes. The Section also identifies previously unidentified sales and withholding payments and credits them to the proper account, and distributes State income tax forms. The Section has 20 full-time staff, and temporary staff is hired only during seasonal peak periods. Table 3 details the activities and work load of the Licensing and Registration Section from 1982-83 through 1985-86.

TABLE 3

LICENSING AND REGISTRATION ACTIVITIES AND WORK LOAD
FISCAL YEARS 1982-83 THROUGH 1985-86

Activity	Actual 1982-83	Actual 1983-84	Actual 1984-85	Estimated 1985-86
Sales Tax Licensing				
New Licenses	23,078	25,757	29,108	30,000
Reissues and Additional Locations	7,792	6,429	6,035	6,000
Maintenance Changes/ Cancellations	71,313 (1)	58,429	100,726	110,000
Withholding Tax Licensing				
New Licenses	17,173	14,245	15,176	16,000
Reissues	977	955	1,982	2,000
Maintenance Changes/ Cancellations	35,910	32,356	22,164	27,000
Tobacco Licensing	89	61	67	67
Cannabis Licensing		11	0	0
Unidentified Payments/ Accounts Worked		15,000 (2)	20,952	21,000

Source: DOR Budget Request for fiscal year 1985-86

(1) Includes work on backlog.
(2) Volume is attributable to implementation of a new computer system.

Revenue And Expenditures

The Division of Taxpayer Services is funded primarily through the general fund. The Bingo Section receives revenue from the collection of in-lieu taxes and licensing fees which totaled $412,285 for fiscal year 1984-85. Bingo license fees are deposited in the general fund and a percentage of the in-lieu tax comprises the Bingo Section's operating budget. Table 4 summarizes the Division's appropriations and expenditures from fiscal year 1983-84 through fiscal year 1985-86.

TABLE 4

TAXPAYER SERVICES DIVISION
REVENUE AND EXPENDITURES FOR FISCAL YEARS 1983-84 THROUGH 1985-86
(Unaudited)

	Actual 1983-84	Actual 1984-85	Estimated 1985-86
Revenues			
Appropriations	$788,800	$1,292,900	$1,132,900
Bingo Administration Fund	0	412,285 (1)	795,630 (2)
Total	$788,800	$1,705,185	$1,928,530
Expenditures			
Personal Services	$320,600	$656,305	$1,032,389
Employee Related Expense	80,000	155,272	232,907
Professional and Outside Services	367,000	698,173	134,500
Travel -			
In-State	1,400	2,904	20,000
Out-of-State	500	0	0
Other Operating	5,000	61,166	28,800
Equipment	14,300	50,414	31,000
Total Expenditures	$788,800	$1,624,234	$1,479,596
Increase in Fund Balance (3)	$ 0	$ 80,951	$ 448,934
Total	$788,800	$1,705,185	$1,928,530

Source: DOR Budget Requests for fiscal year 1985-86

(1) The Bingo Administration Fund total includes $381,345 in-lieu tax and $30,940 in licensing fees.
(2) The in-lieu tax has increased from 1 percent to 2 percent; however, only 1 percent is available to the Bingo Administration Fund. The rest is deposited in the general fund.
(3) Bingo Administration Fund revenues not expended during the fiscal year remain in the fund and are available for future expenditures.

Audit Scope And Purpose

Our audit of the Taxpayer Services Division focused principally on the Taxpayer Assistance and Bingo Sections of the Phoenix office. Detailed work, including on-site visits to California's Taxpayer Services Bureau, the Internal Revenue Service's Taxpayer Services Division and the Regional Service Center, was conducted on the following issues:

- Whether the Taxpayer Assistance Section responds to taxpayer problems and concerns in a timely and efficient manner, and
- Whether bingo statutes and procedures are adequate to control potential abuses in the bingo industry.

In addition, we developed information about the lack of an enforcement program in Licensing and Registration, and the need for increases in business licensing fees. This information is presented in the section Areas For Further Audit Work (see page 37).

The Auditor General and staff express appreciation to the Director of DOR and staff of the Taxpayer Services Division for their cooperation and assistance during our audit.

FINDING I

TAXPAYER ASSISTANCE IS NOT ADEQUATELY MEETING PUBLIC DEMAND FOR SERVICE

The Department of Revenue's (DOR) Taxpayer Assistance Section is not providing adequate service to the public. The Section's phone unit is not meeting minimal public demand. Moreover, Taxpayer Assistance's response to taxpayer correspondence is untimely and inefficient. The Section's excessive reliance on temporary personnel and its failure to provide its staff with sufficient direction and supervision reduce efficiency in both the phone and correspondence units. Although Taxpayer Assistance is taking steps to address these problems, further action is necessary.

The mission of Taxpayer Assistance is to respond to taxpayer inquiries and resolve taxpayer problems completely, accurately and in a timely manner. The Section is responsible for answering questions and resolving problems for all tax types, and maintains three units for this purpose: a phone unit, a correspondence unit and a walk-in office to respond to visits by taxpayers. The Section also contains a clerical/support unit.

Taxpayer Assistance Is Not Providing Adequate Phone Service To Taxpayers

Taxpayer Assistance is not meeting taxpayers' demand for phone service. The Section's phone service is far below the service provided taxpayers by California's Taxpayer Services Bureau and the Internal Revenue Service (IRS). The Section should establish adequate service levels and plan its staffing to meet public demand.

Phone Service Is Inadequate - Taxpayer Assistance's phone service is inadequate. The Section has 17 available open lines. In contrast, regional IRS phone service adjusts for seasonal demands, and operates between 18 and 42 open lines for the Arizona taxpayer community. May 14 through 18, 1984, Mountain Bell did a study for DOR and found that Taxpayer Assistance was able to answer 7,180 of 177,383 attempted calls.

Applying a formula used by California,* Auditor General staff found that Taxpayer Assistance met less than 27 percent of the public demand during that period. Of the approximately 26,400 taxpayers who made the 177,383 calls during that period, 19,300 of them were unable to get through by phone.

In contrast, the Internal Revenue Service and California both maintain service levels that they have determined will satisfy, at least minimally, the public demand. The IRS' regional Taxpayer Services Division is currently answering 70 percent of the total incoming calls from the public, while California is maintaining a service level of 58 percent.

Inadequate phone service increases the time and cost of operating Taxpayer Assistance. Phone service is the quickest and least expensive way to respond to taxpayer inquiries. The United States' General Accounting Office and California have both conducted studies which determined that taxpayers who are unable to have questions answered by phone may react by either sending correspondence or by using the available walk-in services. In a survey conducted during July 1984, California found that 43 percent of those surveyed indicated that they had written because the telephone lines were busy, while 31 percent used the walk-in service for the same reason. Although it cannot be determined how many taxpayers have reacted this way in Arizona, it is reasonable to conclude that many taxpayers, unable to reach Taxpayer Assistance by phone, are turning to correspondence or the walk-in units. Both of these services are slower and more costly than phone service, and more costly and inconvenient for the public.

Assessing Public Demand - Taxpayer Assistance needs to determine public demand and establish adequate service levels. In the past, Taxpayer

* The actual number of taxpayers who call is calculated by a formula that adjusts the figures for repeat dialers and those who hang up before talking to anyone. Our adaptation of the formula does not take into account those callers who hung up, because that information was not included in the Mountain Bell study. As a result, 27 percent is an overstatement of the Section's actual level of service during that period. See Appendix I for the formula and Appendix II for Taxpayer Assistance response to public demand between May 14 through 18, 1984.

Assistance was unable to gauge public demand because its phone system was not equipped to compile the necessary data. The Section's new phone system allows it to obtain data on the number of attempted calls as well as the actual number of calls received from taxpayers. This information is necessary to calculate public demand. Using a mathematical formula, such as the one used by California, the Section could estimate how many taxpayers are trying to call Taxpayer Assistance. Predicting public demand would allow Taxpayer Assistance to determine what level of service will satisfy the public. Setting a minimum service level is a technique used by both the IRS and California to ensure operational efficiency.

Moreover, to maintain established service levels, Taxpayer Assistance must continuously assess its staffing needs. Productivity data, such as the average number of calls a phone worker can answer per hour, can be used to determine how many employee hours are necessary to attain a given level of service. A review of available productivity data shows that phone staff is currently responding to taxpayer calls at a rate of approximately 11 an hour. Although the Section currently collects this data, it cannot be used for the purpose of making staff assessments unless public demand is determined and service levels are established.

Response to Correspondence Is Untimely And Inefficient

Taxpayer Assistance does not respond quickly or efficiently to taxpayer correspondence. The time taken to answer taxpayer correspondence is excessive. Moreover, correspondence casework can be duplicated or lost due to poor inventory control. Taxpayer Assistance's implementation of a new tracking system will partially address these problems.

Response Time To Taxpayer Correspondence - Taxpayer Assistance has a 30-day goal for responding to taxpayer correspondence. The Taxpayer Services Division's Assistant Director considers 30 days reasonable response time. Moreover, according to the Administrator of California's Taxpayer Services Bureau, taxpayers will generally wait approximately 30 days for a response to their inquiries. After that time, he stated,

taxpayers tend to become impatient, and the likelihood that they will write again increases.

Although Taxpayer Assistance recognizes that a 30-day turnaround time is a necessary objective, the Section has been unable to meet that standard in its actual performance. A random sample and review of one week's answered correspondence showed that 74 percent of the taxpayers' correspondence was not answered within 30 days. Moreover, the response time ranged from 4 to 174 days. Table 5 illustrates the Section's untimeliness.

TABLE 5

SAMPLE OF TAXPAYER ASSISTANCE
RESPONSE TIME TO TAXPAYER CORRESPONDENCE
APRIL 26 THROUGH MAY 2, 1985

Response Time (Days)	Total Cases Answered	Percentage of Cases Answered
1-30	33	26%
31-60	53	41
61-90	34	26
90-174	9	7
Total	129	100%

Average Response Time = 51 days

Source: DOR answered correspondence, April 26 through May 2, 1985

During the last fiscal year, much of the Section's unanswered correspondence has been more than 70 days old.

Work Duplication - Work duplication, a result of poor inventory control, is one reason for the correspondence unit's untimely and inefficient service to the public. Casework is manually logged into the Section's inventory by the clerical/support unit. Duplication can occur if the clerical/support unit fails to coordinate multiple contacts from one taxpayer regarding the same problem or inquiry.* Numerous examples were

* Taxpayer Assistance has reported that work is also duplicated because taxpayer problems are being addressed by more than one division within DOR.

found in which two or more of the Section's caseworkers were assigned the same taxpayer's case.

Example 1

Between January and March 1985, a taxpayer wrote Taxpayer Assistance twice requesting a refund for money owed from the 1983 tax season. These letters were assigned separately to two different caseworkers, and both requested refunds for the taxpayer. According to a Section caseworker, these refund requests were canceled by DOR's Error Resolution Unit because it was discovered that the taxpayer had already been issued a refund, at the request of a third Taxpayer Assistance caseworker. The Section's files did not contain a record of this transaction.

Although the extent of work being duplicated cannot be determined, the following example indicates that it may be a widespread occurrence.

Example 2

Taxpayer correspondence answered by one caseworker between February 27 and May 6, 1985, was reviewed, and of the 281 pieces of correspondence assigned to him during that period almost 14 percent had already been answered by other workers.

Comment

This case illustrates that a worker would not know that assigned casework had already been completed until sometime after the taxpayer's problem was addressed.

Lost Cases - In addition, cases have been lost as a result of the Section's inventory control problems. Between January and May 1985, the Section found 5,886 pieces of unanswered correspondence that were not included in the inventory. In January alone, the Section's inventory almost doubled, from 5,768 to 10,729, as a result of casework recovered through a physical inventory. Some of this casework was in the Section's possession for almost 300 days.

According to the Section's Assistant Director, management reports cannot be relied on to detect staff ineffectiveness, and therefore cannot control missing inventory. (See pages 18 and 19 for further information). As a result, taxpayer inquiries can go unanswered for prolonged periods of time.

Example 3

In January, 1985, Taxpayer Assistance conducted a physical inventory to determine if older cases were being resolved immediately. Subsequent to this, caseworkers were instructed that if they would return any correspondence in their possession that they were hiding, they would not be disciplined. Although the exact number of recovered correspondence is unknown, the Assistant Director stated that two boxes were filled.

New Tracking System - The Section has plans to implement its Taxpayer Request Assistance and Control System (TRACS) to address its inventory control problems. The Section currently relies on its staff to monitor the processing of taxpayer correspondence with little success. Casework is manually logged into the Section's inventory by the clerical/support unit, then assigned to various group leaders who are responsible for coordinating it through the work process. Staff ineffectiveness and the decentralized inventory control process has resulted in the problems described earlier.

If fully implemented, TRACS will automate and centralize the inventory control process. According to the TRACS Implementation Project Report, the new control system will provide for multidivisional usage, and automate monitoring and dispatching of actions. TRACS, when implemented, should allow the Section to eliminate work duplication* and more easily detect staff ineffectiveness.

Moreover, if fully implemented, TRACS will also address the Section's timeliness problem by providing greater terminal access. The Section's correspondence units currently have access to 28 terminals. With TRACS, the number of available terminals will increase to 44. Greater access to taxpayer information will enable workers to respond to taxpayers' problems more quickly.

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* In the interim, Taxpayer Assistance should consider sending acknowledgement letters to taxpayers whose correspondence is more than 20 or 30 days old. Acknowledgement letters could curtail the Section's work duplication problem by informing taxpayers that their letters have been received. California, for example, sends acknowledgement letters when unanswered correspondence is more than 21 days old.

TRACS alone, however, will not eliminate staff ineffectiveness or solve the Section's timeliness problem. Service to taxpayers will not significantly improve unless attention is given to the Section's staffing, training and procedural deficiencies.

Substandard Performance Is The Result Of Inadequate Staffing, Inadequate Operating Procedures And Limited Supervision

Taxpayer Assistance's excessive reliance on temporary personnel, and its failure to sufficiently direct and supervise its staff are primary reasons for the Section's poor level of service. The use of temporary personnel limits the Section's ability to train its staff and reduces productivity. Moreover, Taxpayer Assistance has failed to provide adequate work procedures or sufficient supervision. Although Taxpayer Assistance is taking corrective steps to address these problems, further action is required.

Excessive Reliance On Temporary Personnel - Taxpayer Assistance's excessive reliance on temporary personnel limits its ability to provide adequate staff training, and reduces productivity. Because the turnover rate of temporary workers is high, Taxpayer Assistance cannot invest much time in staff screening and training.

Taxpayer Assistance has relied heavily on temporary personnel since becoming a separate section in 1983. As of May 1985, the ratio of permanent employees to temporary personnel was 21 permanent employees to approximately 72 temporary workers. Funding for temporary personnel comes from a lump sum appropriation for "Outside Professional Services" and, in effect, disguises the actual number of full-time workers at Taxpayer Assistance.

Moreover, this excessive use of temporaries has created a serious turnover problem. The turnover rate of temporary personnel is high. A 6-month review of temporary workers' turnover demonstrates that turnover is a significant problem for Taxpayer Assistance. Table 6 illustrates the Section's turnover problem.

TABLE 6

TENURE OF TEMPORARY EMPLOYEES
DECEMBER 16, 1984, THROUGH MAY 25, 1985

Length of Employment	Percentage of Employees Terminating
1 week or less	8%
1 month or less	21
3 months or less	42
6 months or less	74

Source: DOR billing statements from temporary personnel vendor, December 16 through May 25, 1985

Because the Section must continually replace staff who have either quit or been fired, training must be minimized. Since Taxpayer Assistance cannot realistically invest sufficient time in staff training, training is substandard.

Training for newly hired correspondence workers consists of a 2-day training course. According to the Assistant Director, the training package used has proven to be inadequate. Moreover, no training materials have been developed that focus on sales tax, which the Assistant Director described as the most complicated tax area to master. Finally, training for the phone unit is basically the same as for the correspondence unit, except that it is extended to 5 days with an additional 5 days for on-the-job instruction. The Assistant Director concluded that training for all personnel is limited and inadequate.

Taxpayer Assistance's lack of comprehensive training means that most of the staff's learning is done on the job. As a result, a substantial amount of caseworkers' potentially productive time is spent consulting with peers and supervisors to determine how to respond to taxpayers. For example, a limited study showed that among the different units, 18 percent of the staff's productive time was spent consulting with supervisory personnel and other workers.

Because of turnover and inadequate training, Taxpayer Assistance continuously has a core group of workers responding to taxpayer correspondence at a rate far below average. The productivity of newly hired income tax correspondence workers was reviewed for approximately 6 months. During the first 3 weeks of employment, new personnel responded to taxpayer correspondence at a rate just slightly better than half that of the Section's overall average.

In contrast to Taxpayer Assistance, the IRS and California both have developed comprehensive training programs to ensure that new employees can produce at an acceptable level. The IRS, for example, conducts 4 weeks of formal classroom training. Moreover, trainees must pass a series of tests throughout the training, or they are dismissed. California has a 5-week training program, and its trainees must also pass an exam before being allowed onto the work area. Consequently, both organizations are able to replace personnel as necessary without a serious impact on staff productivity.

Operating Procedures - Substandard performance also results from the Section's inability to develop an inclusive set of written procedures to promote operational efficiency. Taxpayer Assistance lacks adequate control over the work process because it has relied on informal oral procedures. Further, current procedures need to be examined and updated to improve operational efficiency.

Taxpayer Services' control over the manner in which work is done has been impaired because it relied on oral communication instead of written procedures. Written procedures help ensure that the staff works uniformly and correctly. For example, during an on-site visit we learned that California has developed a comprehensive operating guide for its staff. This written reference guide is an essential tool in California's case resolution process. To ensure ready access, each caseworker, phone and correspondence employee shares a reference guide with one other worker. It is the primary guide used by California's staff in responding to taxpayer problems. Moreover, California's training program revolves around

teaching trainees how to use this guide. According to the Administrator of California's Taxpayer Services Bureau, without this operating and instruction manual he would be unable to maintain the quality and uniformity of work done by his staff.

Taxpayer Assistance has been unable to examine and update its operating procedures. According to the Assistant Director, qualified in-house personnel have only recently had the time to write its currently used procedures. The Section solicited the assistance of DOR Management Services in February 1985. Management Services, however, had no available staff.

Moreover, there is evidence that currently used procedures need to be examined and updated to improve the Section's efficiency.

- Unnecessary Delays In Work Flow - In many cases, action on a taxpayer's problem cannot be taken by a caseworker until the taxpayer's file is obtained from DOR's file room. After a file is ordered it can take several weeks before it is delivered. Currently, the decision to order taxpayer files is made by the caseworker when a taxpayer case is assigned. As a result, taxpayer problems, which can be backlogged for months before being assigned to a caseworker, can remain unresolved for additional weeks before a caseworker can take action. By having a caseworker briefly review unassigned casework and order documents in advance, Taxpayer Assistance could, in many cases, reduce its response time to taxpayers.

- Unnecessary Paperwork - Caseworkers are required to write two summaries each time they respond to a taxpayer: one for the Section's files and one that is sent to the file room to "connect" with the taxpayer's file. Although cases involving monetary transactions should always be documented, documenting every taxpayer communication in duplicate seems unnecessary. California, for example, documents only those cases involving monetary transactions.

Although the Section has recently written currently used procedures, our analysis indicates that simply drafting existing procedures could result in formalizing inefficient work practices. Procedures in effect should be examined and updated, as well as written and made accessible to staff.

Staff Supervision - Finally, the quality of supervisory staff needs to be improved. To maintain minimal supervision, full-time employees have had to assume many responsibilities for which they are not adequately paid and may not be qualified. Aside from the Section's Administrator, Taxpayer Assistance has three official supervisory positions to manage the correspondence, phone and clerical units. To provide more direct control, Taxpayer Assistance has used Accounting Clerk IIs and IIIs as voluntary supervisors within the correspondence and phone units. Further, Accounting Clerk IIs and temporary personnel have served as technical advisors and reviewers.

Taxpayer Assistance has given many responsibilities to employees with limited qualifications. For example, one Accounting Clerk II, paid $10,722, headed a group of 21 correspondence caseworkers for several months. This Accounting Clerk had the following responsibilities: unit supervisor, technical advisor, inventory control coordinator and trainer.

Further, giving too many responsibilities to a single supervisor reduces effectiveness.

- Because of his many duties, the phone unit's supervisor is unable to regularly monitor staff performance. The phone unit is staffed entirely with temporary personnel having limited experience and training. Because adequate supervision is not available, quality control is neglected for a group where it is especially needed.

In contrast, California has a multilayered staff of qualified supervisors and technical advisors administering a correspondence unit comparable in size to Arizona's Taxpayer Assistance. Responsibilities are segregated and more evenly distributed. For example, with more supervisors available, a group supervisor working for California is responsible for no

more than 12 correspondence workers. In addition, a technical advisor is also available to that same group of 12. These supervisory personnel are paid commensurate to their responsibilities, with salaries ranging from $18,468 to $21,900.

Corrective Action - While Taxpayer Assistance is taking corrective steps to address its staffing problems, further action is necessary. Taxpayer Assistance has plans to increase its full-time staff and reclassify positions. The Section needs to improve its training program as well. Finally, the Section's information must be improved so it can monitor the impact of its new staffing policy and make future staff assessments.

To address its staffing problem, Taxpayer Assistance plans to increase its full-time staff and reclassify positions. The Section's approved full-time employee positions will increase by 18 at the start of fiscal year 1986. Taxpayer Assistance's reclassification plan would upgrade these as well as its currently existing positions. The plan calls for better pay for its front-line caseworkers as well as provisions for increased supervisory personnel. Although the Section's staffing plans should provide a more stable work environment, the Section will still retain a substantial number of temporary personnel (approximately 54 temporary workers to 39 permanent workers). This continued reliance on temporaries could mean that turnover will remain a problem. Turnover must be controlled before an effective training program, which should be developed, is cost beneficial.

It is important that Taxpayer Assistance improve the quality of its training. The Section's staffing plans will only be effective if training is improved. Taxpayer Assistance could use as its model either California or the IRS in this regard. Both have programs that adequately prepare and screen personnel before allowing them to interact with taxpayers.

To more adequately assess its permanent staffing needs, the Section needs better management information. Management reports, the Section's primary

means of monitoring its operation, are often unreliable and lack the precision needed to be useful. As a result, statistics collected on staff's time, productivity, and activities are of limited value.

- Although time data is collected by Taxpayer Assistance, in the past, little effort was made to consistently separate different work activities. As a result, Taxpayer Assistance does not know, for example, how many man hours in fiscal year 1985 were spent responding to taxpayer correspondence, training new personnel, or reviewing case work.*

- Although individual productivity data is collected, the various kinds of correspondence answered are not differentiated. Name and address changes, for instance, are not distinguished from refund requests, which take substantially longer to complete. As a result, Taxpayer Assistance cannot accurately evaluate individual performance. For example, on two occasions workers were mistakenly commended for exceptional productivity because management was unaware of the nature of the work performed.

- A review of 1 week's answered correspondence of the Section's withholding tax unit showed that 60 percent of the work reported as completed correspondence was simply mail routed to other units within DOR. Further, the withholding unit spent the entire month of January processing annual withholding tax returns, which should be processed by DOR's Accounts Receivable Section. Thousands of these returns were processed by the unit and counted as taxpayer correspondence by the Section.

During an on-site visit we observed that California uses a form to collect information that the Section could find useful (see Appendix III). The form, turned in weekly by California caseworkers, compiles daily production

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* Taxpayer Assistance is currently improving the quality of time data collected.

and time data in a simple and usable format, from which staff productivity can be evaluated and staff assessments can be made.

CONCLUSION

DOR's Taxpayer Assistance Section is not providing adequate service to the public. The Section's response to taxpayers' problems and inquiries is slow and inefficient. Operational deficiencies are primarily the result of Taxpayer Assistance's excessive reliance on temporary personnel and its failure to provide its staff with sufficient supervision and direction. Finally, although the Section is taking corrective steps to address its problems, further action is required.

RECOMMENDATIONS

1. Taxpayer Assistance should upgrade its phone service by calculating public demand, establishing adequate service levels and assessing its staffing needs on a continuous basis.

2. The Legislature should consider funding Taxpayer Assistance's plans to implement its Taxpayer Request Assistance and Control System.

3. The Legislature should consider adopting Taxpayer Assistance's plans to increase and reclassify its full-time employee positions, which includes additional levels of supervisory personnel and less dependence on temporary workers.

4. DOR should develop a comprehensive program for training staff in its Taxpayer Assistance Section.

5. DOR should examine, update and write operating procedures. These procedures should be accessible to the staff to ensure that responses to taxpayers' problems and inquiries are made uniformly and correctly.

6. Taxpayer Assistance should continue to improve the quality of its management information so it can adequately evaluate its operation's staffing needs and performance.

FINDING II

DOR NEEDS TO FURTHER STRENGTHEN AND IMPROVE BINGO REGULATION AND ENFORCEMENT

The Arizona Department of Revenue (DOR) should further strengthen and improve bingo regulation and enforcement to prevent abuses in the bingo industry. The nature of the bingo industry in Arizona has changed in recent years, and the potential for criminal abuse has increased. Although DOR recently has made efforts to increase control over bingo operators, additional statutory and procedural changes are necessary to prevent the misuse of proceeds and skimming of receipts by unscrupulous individuals. In addition, DOR should adopt a multitiered bingo licensing system to improve enforcement effectiveness.

Bingo, defined as a game of chance, was legalized in Arizona in 1972. At that time, DOR's predecessor, the State Tax Commission, was designated as the State licensing authority to license and regulate bingo operations.

Presently there are two categories of licensure: large and small game licenses. As of August 1985 there were 667 bingo licensees. Slightly more than half are small game licenses. Large game licenses are limited to qualified organizations as defined by Arizona Revised Statutes (A.R.S.) §5-401. Small game licenses can be issued to any organization or individual that has the approval of the local governing body and is deemed of good moral character.

Under State statute, large game bingo licensees are required to use the proceeds of bingo games for the charitable purposes of the organization. In addition, licensees must report their financial activity for each quarter to DOR through the use of quarterly financial reports (QFRs). At the time of filing QFRs, each large game licensee is required to pay an in-lieu tax of 2 percent of the gross receipts collected during that

quarter.* Small game licensees pay 2.5 percent of the gross receipts collected when filing QFRs.

Nature Of The Bingo Industry Has Changed

The operation of bingo in Arizona has grown dramatically, creating the opportunity for serious criminal activity. However, DOR has only recently taken steps to strengthen its bingo enforcement efforts.

The operation of large game bingo has become an industry in Arizona since its legalization in 1972. DOR did not have figures available to determine the increase in licensees or gross receipts for recent years. However, the total bingo revenue collected - in-lieu tax and license fees - has doubled since 1982. The in-lieu tax collected, a percentage of gross receipts, and license fees have increased from $276,216 in 1982 to an estimated $560,000 in 1985 (see Table 7). This increase indicates the dramatic growth in the bingo industry.

TABLE 7

BINGO REVENUE COLLECTED - LARGE AND SMALL LICENSEES
FOR FISCAL YEARS 1982-83 THROUGH 1984-85

Fiscal Year	Bingo Revenue Collected
1982	$276,216
1983	388,758
1984	415,224
1985 (est)	560,000

The amounts of money received by licensees have also increased dramatically. Several not-for-profit organizations rely heavily if not solely on bingo net proceeds as a funding source for their charitable

* Legislation passed during the 1985 session of the Legislature changed the percentage of in-lieu tax for large game licensees from 1 percent to 2 percent of gross receipts. One percent is designated for the administration of the bingo statutes and 1 percent is to be deposited into the general fund.

activities. The Bingo Section Supervisor estimates the total gross receipts per year generated from bingo to be $40 million. As an example of the extensive dollars involved, one large game licensee reported more than $300,000 in gross receipts for the first quarter of 1985. This resulted in weekly average gross receipts of more than $23,000. Approximately $120,000 of the $300,000 was turned over to the charity as net proceeds, representing a 40 percent return for the charity.

The cash nature of the bingo industry creates an enormous potential for criminal activity. The majority of the large game licensees do not use any type of receipt or control system for the monies received from players for the purchase of cards, nor are they required to do so by statute. This situation promotes the opportunity for individuals involved in operating the bingo games to skim cash receipts.

DOR Has Increased Enforcement - Despite the growth in the bingo industry and the opportunity for abuse, DOR has only recently taken steps to increase its efforts to ensure compliance. Prior to last year, DOR's licensing and investigative files indicate that enforcement was extremely weak and ineffective. In addition, the financial reporting requirements for bingo licensees have been less than adequate, or insufficiently monitored by DOR. DOR's efforts to strengthen enforcement have included increasing the Bingo Section's staff authorization from 4.5 in fiscal year 1984 to an estimated 13 in fiscal year 1985. In 1984, DOR created a Bingo Administration Fund* to maintain the in-lieu taxes used to fund DOR's regulation of bingo licensees.

Other efforts to enhance enforcement have also been undertaken. During the 1985 Legislative session, amendments to the bingo statutes enhanced DOR's ability to conduct investigations of suspected criminal activities of licensees. These amendments included: 1) a requirement that bingo licensees conduct and record bingo games in a manner that allows DOR to

* DOR has had the statutory authority to use an in-lieu tax to fund the regulation of bingo licensees since 1972. Prior to 1984, the in-lieu tax collected from bingo licensees was improperly deposited into the general fund, while DOR received general fund appropriations to fund its bingo regulatory activities.

verify gross receipts for each occasion, and 2) a provision granting DOR bingo investigators limited peace officer powers. In addition, the Bingo Section is currently participating with the Department of Public Safety and the Attorney General's Office in a major criminal investigation of individuals involved with a licensed organization. According to the Bingo Section Supervisior, this is the first time DOR bingo investigators have participated in an in-depth criminal investigation with a law enforcement agency.

Enforcement Could Be Further Strengthened

Existing enforcement efforts by DOR are not adequate to detect and prevent criminal abuses by licensees. Although efforts have been made recently to strengthen enforcement, additional steps should include audits of licensees, compliance visits, additional financial reporting requirements and the enforcement of statutes limiting volume discounts. In addition, DOR should conduct criminal background checks to deter the presence of criminal elements in the bingo industry.

Audits - DOR is unable to verify the information reported on QFRs, and its ability to identify violations by licensees under investigation is limited because audits of licensees are not currently conducted. Without conducting audits DOR cannot verify the gross receipts and distribution of net proceeds reported by licensees on QFRs. In addition, failing to conduct audits of licensees under investigation limits DOR's ability to establish acts of wrongdoing and identify dollar amounts involved. These situations hamper efforts to detect skimming of gross receipts and fraudulent uses of net proceeds. The following case examples illustrate the need for audits of licensees.

Case 1

As early as 1981, a licensee and eventually its licensed auxiliary provided questionable accounting for the distribution of net proceeds on QFRs. One such practice was to establish a line of credit with a

bank and then repay the loan with bingo net proceeds. The licensees reported the distribution of net proceeds on the QFRs as a lump sum loan payment to the bank. According to DOR records, the licensees used more than $235,000 in bingo funds for this purpose.

Comment

A.R.S. §5-406.O. limits the licensees use of bingo net proceeds to the lawful purposes of the organization. The licensee reported the lump sum payment of a loan as the distribution of net proceeds but failed to detail how the monies from the line of credit account were spent. Because DOR did not conduct an audit it could not determine if the net proceeds were spent for the lawful purposes of the organization.

Case 2

According to quarterly financial reports submitted by a licensee, during the four quarters of 1984, the licensee donated more than $14,000 of bingo net proceeds to its auxiliary, a violation of A.R.S. §5-406.J. In addition, the licensee reported donations of bingo net proceeds to an organization that may not be qualified to receive such funds.

Comment

In this case, information reported on the licensee's QFR indicated that the licensee was in violation of bingo statutes. Without an audit, DOR's ability to determine and verify the extent of the potential violations and the amount of dollars involved will be severely limited.

The use of audits has been an effective enforcement tool in other states. Washington state, for example, generates a schedule of audits based upon the amount of gross receipts collected by a licensee. This practice allows Washington to concentrate its limited auditing resources on those licensees with the greatest potential for more serious wrongdoing.

The Bingo Section does not have audit staff. A recent attempt by the Bingo Section to have an audit conducted by the Taxation Division as part of a bingo investigation met with little success. Because of limited audit resources, the Assistant Director of Taxation was unable to provide an auditor for the investigation.

Compliance Visits - DOR also needs to conduct routine and undercover compliance visits of licensees to better detect skimming of bingo gross receipts. The Bingo Section recently implemented a program of conducting

compliance visits of licensees. However, in some instances it notifies the licensee in advance of the inspection, and under existing circumstances cannot verify receipts during the visit.

Routine and undercover compliance visits will assist bingo investigators to verify gross receipts reported by licensees for each bingo occasion. The bingo statutes require licensees to conduct and report bingo games in a manner that will allow DOR to verify gross receipts by occasion. This requirement should provide DOR with the information necessary to verify gross receipts during a compliance visit. In addition, unannounced and undercover compliance visits could reduce the incidences of suspected gross receipts skimming and unauthorized games, since licensees can never be sure when DOR bingo investigators will appear for a compliance visit. The following case example illustrates the need for compliance visits.

Case 3

In March of 1985 two responsible parties of a bingo license were convicted on felony charges of conducting an illegal enterprise and fraud, respectively, in connection with their bingo activities. DOR files indicate that these individuals on numerous occasions conducted unauthorized bingo games and then retained the proceeds for themselves.

Comment

Although the case was eventually investigated by the Department of Public Safety and the Attorney General's Office, according to the Bingo Section Supervisior, the original violations that led to the felony convictions were discovered through the individual initiative of a bingo investigator conducting undercover compliance visits. If the Bingo Section had been using a schedule of routine unannounced compliance visits, DOR may have discovered the unauthorized games much sooner.

The Arizona Racing Commission and the Department of Liquor Licenses and Control conduct routine inspections or compliance visits of permitees and licensees. Both agencies perform these compliance visits unannounced and often use undercover compliance visits to identify suspected violations by licensees.

Report By Occasion - Requiring licensees to maintain reports by occasion should assist DOR in identifying those individuals skimming bingo gross

receipts. Currently, bingo licensees are required by statute to file Quarterly Financial Reports outlining their financial activity for the quarter. In addition, legislation enacted in the 1985 session requires bingo licensees to conduct and record the bingo game activity in a manner that will allow DOR to verify the gross receipts from each occasion. DOR is promulgating rules and regulations that will prescribe the requirements licensees must meet.

Because licensees are not required to maintain reports for each occasion, however, gross receipts reported on QFRs cannot be easily verified. Occasion reports would require licensees to maintain sufficient documentation to identify their gross receipts for the occasion, thereby providing gross receipts information to Bingo Section investigators conducting compliance visits. It would also provide a uniform system of documenting the information provided on QFRs. The following case example illustrates the need for occasion financial reports.

Case 4

In August of 1984 DOR received an anonymous letter that outlined several illegal activities of a licensed organization and its auxiliary. The letter included names, dates and specific occurrences. An official investigation of the licensee began in early 1985. Since that time, the investigation has identified a potential skim of bingo gross receipts of approximately $400 to $1,200 per occasion, and various fraudulent uses of the bingo net proceeds.

Comment

The licensee in this case has been able to skim gross receipts per occasion because of the cash nature of the bingo industry. According to the Bingo Section Supervisor, evidence indicates that individuals within other licensed organizations skim cash from each bingo occasion, but because of the lack of detail, it is very difficult to document violations. A requirement that licensees maintain reports by occasion would provide bingo investigators with additional evidence documenting instances of gross receipts skimming.

Several other states require their bingo licensees to complete financial reports for each bingo occasion. These occasion reports include the gross receipts, number of players present, quantity and price of cards sold, prizes paid, bingo related expenses, and net proceeds. In some states the

occasion reports are maintained by the licensee and used to support financial reports submitted to the licensing authority.

DOR is currently promulgating rules and regulations that will prescribe requirements for reports by occasion. The Assistant Director anticipates that public hearings on the rules and regulations will be held in October 1985.

Volume Discounts - Finally, the enforcement of statutes limiting volume discounts would further enable DOR to verify gross receipts. For several years many licensees have offered price discounts on the sale of paper bingo cards based upon the volume bought by an individual player. For example, a licensee may offer a player the option of purchasing five cards for $2 or ten cards for $3. This practice makes it difficult to verify the licensee's gross receipts for each occasion. Without a constant price per card sold, it is nearly impossible to calculate the gross receipts of a licensee by counting players during a compliance visit. DOR proposes in its current draft of rules and regulations to eliminate volume discounts per game.

Beyond hampering DOR's ability to verify gross receipts, volume discounts in excess of $50 per occasion may also be illegal. According to a representative of the Attorney General's Office, the practice of offering volume discounts is a violation of statutes when the total discounts reach $50 in an occasion. A.R.S. §5-406.R. states, in part; "No door prizes, discounts or other inducements with a value exceeding fifty dollars per occasion may be offered or given away." To eliminate the selling of paper cards at a volume discount, DOR needs to enforce the provisions of A.R.S. §5-406.R.

Criminal Background Checks - DOR's failure to conduct comprehensive criminal background investigations of individuals applying for qualified organizations (large game licenses) has resulted in criminal elements becoming involved in the Arizona bingo industry. To effectively conduct comprehensive investigations, DOR should employ the fingerprint application card as the source for the investigations.

Since late 1984 DOR has conducted limited criminal background checks of individuals representing organizations seeking bingo licensure. Currently, DOR relies upon the local governing body with jurisdiction over the organization to conduct some form of a criminal background check. However, not all local governments conduct the checks, and the methods used by others have been inadequate. DOR conducts criminal background checks in those instances in which the local governing body does not. However, DOR's methods do not identify violations committed outside of Arizona. The following case example illustrates the consequences of not conducting adequate criminal background checks.

Case 5

In 1977 an organization submitted an application for bingo licensure to DOR. DOR records indicate that DOR issued the bingo license to the organization 3 days after receiving the application.

As the result of a preliminary investigation of the licensee by DOR, a Department of Public Safety and Attorney General's investigation was authorized. During this investigation it was found that one of the responsible parties had a felony arrest and misdemeanor conviction on a gambling violation in another state before coming to Arizona and applying for a bingo license. In March of 1985 two responsible parties of the bingo license were convicted of conducting an illegal enterprise and fraud, respectively, in connection with their illegal bingo activities.

Comment

Because DOR failed to conduct a thorough criminal background investigation of the responsible parties of this licensed organization, an individual with a history of gambling violations was allowed to participate in the bingo operation, and use gross receipts and net proceeds for personal gain. In fact, DOR documents indicate that the organization was not qualified at the time of licensure.

To conduct thorough criminal background investigations, DOR's only option is to use the fingerprint application card system through the Arizona Criminal Justice Information System (ACJIS) operated by the Department of Public Safety. Under this system, the license applicants' fingerprints are submitted to ACJIS where they are reviewed for any criminal history in Arizona and forwarded to the Federal Bureau of Investigation for a review against the FBI's extensive criminal history system. Fingerprints are the most conclusive identifier since applicants with criminal histories can change their names but not their fingerprints. Several other State

licensing authorities, including the Department of Liquor License and Control, the Racing Commission, the State Lottery Commission and the Registrar of Contractors use ACJIS to conduct criminal background investigations of license applicants. In addition, all other computerized criminal history systems are inaccessible to DOR because of Federal and State agreements forbidding their use for licensing and employment purposes.

Implementation Of A Multitiered System

DOR should seek necessary legislation to adopt a multiple-tiered bingo licensing system. The current system of large and small game licenses does not allow DOR sufficient flexibility to enforce compliance with the bingo statutes. Implementation of a multitiered system would further improve enforcement effectiveness by allowing DOR to concentrate limited resources on licensees with the greatest potential for more serious wrongdoing.

The existing large and small game licensing system does not give DOR the flexibility to concentrate its resources on licensees with the greatest risk of more serious wrongdoing. Under the existing large game statutes, those licensees that play one occasion per week and report quarterly gross receipts of less than $1,000 are required to meet the same standards as those licensees that play three occasions per week and report quarterly gross receipts of more than $300,000. In addition, small game licensees are currently limited by statute to $300 per week in gross receipts. This $300 criteria was established in 1973 when the small game bingo statutes were enacted. Based on a gross national product price inflator, $300 in 1973 would be the equivalent of more than $650 in 1985.

Washington State, for example, recognizes the difference between those organizations that play bingo for entertainment and those that play to fund large charitable organizations, and has created a multitiered licensing system to accommodate the different needs of bingo licensees. Washington utilizes a system of 11 classes of bingo licenses, separated into three major categories for enforcement purposes. Under its

multitiered system, licensees that report high gross receipts are mandated to meet more restrictive reporting and compliance requirements.

A multitiered licensing system would impose more stringent compliance and reporting requirements on those licensees that report higher gross receipts and therefore would have a greater opportunity to gain from illegal or fraudulent uses of the bingo gross receipts and net proceeds. For example, licensees reporting higher gross receipts might be scheduled for more frequent audits, receive additional compliance visits and be required to provide additional information on occasion reports. The current investigative case load of the Bingo Section indicates that a vast majority of the open cases involve those licensees that report gross receipts of more than $50,000 per quarter.

As an example of a multitiered licensing system, DOR might consider the system represented in Table 8. This example is provided only to illustrate the benefits of a multitiered system. A comprehensive analysis of existing large and small game licensees would be necessary in order to accurately calculate the number of license classes and dollar cutoffs that would result in the most effective use of this system.

TABLE 8

EXAMPLE OF MULTITIERED LICENSING

License	Average Per Quarter Gross Receipts for Previous 4 Quarters
Class A	$ 0 to $ 5,000
Class B	$ 5,000 to $25,000
Class C	$25,000 to $50,000
Class D	over $50,000

A multitiered system could be designed to accommodate small game licensees. Reporting and compliance requirements could remain minimal for small game licensees under this system.

CONCLUSION

DOR can further strengthen bingo regulation and enforcement. Procedural changes are needed to prevent the misuse of proceeds and the skimming of receipts. Statutory changes creating a multitiered licensing system would further improve enforcement effectiveness.

RECOMMENDATIONS

1. The Legislature should consider developing a multitiered bingo licensing system.

2. DOR should:

   A. Conduct routine and investigative audits of licensees.

   B. Conduct routine and undercover compliance visits of licensees.

   C. Require licensees to maintain per occasion reports.

   D. Enforce the provisions of A.R.S. §5-406.R and eliminate volume discounts for bingo playing cards that exceed the $50 criteria.

   E. Conduct comprehensive criminal background investigations of individuals representing qualified organizations applying for licensure and use the fingerprint application card system.

OTHER PERTINENT INFORMATION

During the audit we developed pertinent information in the following two areas: 1) placement of authority to regulate bingo activities, and 2) Tucson Taxpayer Services Section.

Organizational Placement Of Bingo Regulatory Authority

During the course of the audit some individuals involved in regulating bingo in Arizona questioned the placement of regulatory authority within the Department of Revenue. DOR licenses and regulates bingo operations through its Taxpayer Services Division. However, bingo is gaming and the activities associated with it are very dissimilar to the revenue collecting duties of DOR in general, and the business tax licensing and taxpayer assistance duties of the Taxpayer Services Division specifically.

The licensing and regulation of bingo operations in other states is conducted by a variety of state agencies. Similar to Arizona, some states have placed the bingo licensing authority within their department of revenue or its equivalent. Other states have placed the authority within a variety of state agencies. For example, Connecticut and Rhode Island regulate bingo through their department of public safety (state police); and gaming control boards regulate bingo in Delaware, Nevada and New Jersey. Other state agencies regulating bingo include the lottery commission, sweepstakes commission, racing commission, liquor control commission and attorney generals office. In addition, a few states have left the responsibility of licensing and regulating bingo operations to the local governments.

Tucson Taxpayer Services Section

In addition to the Taxpayer Assistance Section in Phoenix, the Tucson Division of DOR also performs taxpayer services functions. The Tucson Section is under the Assistant Director of the Tucson Division. Although

the Tucson Section and Taxpayer Assistance try to coordinate activities and programs, the Assistant Director of Taxpayer Services has no jurisdiction over the Tucson Section's operations or performance levels. Consequently, differences in operating procedures do exist.

The Tucson office has recently expanded its activities and staff. Prior to April 1985 the Tucson Section handled only income tax cases, telephone inquiries and taxpayer walk-ins. All other cases were handled by collectors or sent to Phoenix. The staff consisted of six employees, five being temporary employees. In April 1985 the Tucson Division reorganized its Taxpayer Services Section. Duties were expanded to include all tax types, and personnel increased to 15 employees: four full-time employees and 11 temporaries. Changes in staffing effective July 1985 provide the section with eight authorized full-time positions, but no temporary positions are funded.

The Tucson Section has experienced some of the same problems identified in Finding I (see page 7), particularly high turnover among temporaries and limited training. The Section Supervisor estimates that in 1984 the Section experienced a 40 percent turnover rate each month. High turnover of temporary staff limits the Section's ability to provide adequate training. Tucson Section employees receive less than 1 week of formal training prior to being assigned taxpayer cases. The Division's 1985-86 budget request noted "[t]he quality of responses to the taxpayers has been a problem with the use of temporaries." However, with the recent change from temporary positions to full-time positions, the Tucson Section should develop more extensive training for employees.

According to the Section Supervisor, the April 1985 reorganization has helped produce a more timely response rate to taxpayer inquiries. Prior to the reorganization the Section had approximately 2,000 cases. The Supervisor estimated that as of June 6, 1985, the Section had 700 cases with an average turnaround time of 30 days. A review of inventory indicated that 78 percent of the cases fell within the 30-day time frame. The remaining 22 percent were assigned to caseworkers, and work had been started on most of the cases.

Timely response may also be a result of a lower work load for the Tucson office. A comparison of incoming correspondence cases received between January 1985 and May 1985 shows that a Tucson correspondence caseworker receives approximately one-fifth the number of cases that a Phoenix caseworker receives (see Table 9).

TABLE 9

COMPARISON OF PHOENIX AND TUCSON WORK LOADS
BETWEEN JANUARY 1985 AND MAY 1985

	Phoenix	Tucson
Number Of Correspondence Cases Received	41,545	1,619
Average Number Of Employees	52	7.5
Number Of Cases Per Employee	799	162

Source: DOR Taxpayer Services weekly reports and staffing records

Although the Tucson Section has expanded its activities, the increase of personnel and comparatively low correspondence volume has allowed it to meet the 30-day turnaround goal. In addition, the Section's move from temporary personnel to full-time staff should allow for improved training and improved quality of work.

AREAS FOR FURTHER AUDIT WORK

During the course of our audit we identified potential issues that we were unable to pursue due to time constraints.

- Should the Department of Revenue establish a compliance program to identify businesses operating without the appropriate State business licenses?

  The Department of Revenue currently has no enforcement program to detect businesses operating without proper State licenses. The Assistant Director of Taxpayer Services believes that a compliance program is not cost effective and DOR no longer authorizes a full-time position to perform compliance activities. She contends that Arizona has a high rate of voluntary compliance. In addition, she estimates that the amount of revenue collected from those businesses not in compliance would be insignificant compared with the costs of maintaining an enforcement program.

  Some local governments in Arizona maintain enforcement programs that seem to assist the State indirectly. Phoenix and Scottsdale require a city business license applicant to provide proof of holding the necessary State license before issuing a city license. In addition, both cities have enforcement programs to identify businesses operating without the required licenses. In the course of conducting their own investigations, city investigators may identify businesses without a State license.

  The State may be losing revenue, however, because it does not maintain its own enforcement program. Each year since 1983 DOR's licensing section has conducted a limited sample to identify the extent of noncompliance. In 1983, 3 percent of the businesses examined did not have the required State license. According to

the Assistant Director, in 1984 and 1985 a match-off with sample cities indicated a potential noncompliance rate of 16 and 12 percent. DOR did not develop loss of revenue estimates based on these noncompliance rates. Further audit work is necessary to determine the actual compliance rate in Arizona, the potential loss of revenue due to noncompliance, and whether an enforcement program at the State level would be cost effective.

- Are licensing fees adequate?

The Department of Revenue charges each business applying for a sales tax license a $5 fee. Preliminary audit work indicates that the $5 fee may not cover all administrative costs of the licensing program. In 1982 the fee was raised from $1 to $5, and periodic renewal was eliminated. Currently, unless a business changes location or ownership, the $5 fee is a one-time charge. In contrast, the City of Phoenix charges $12 for a city business license. Further audit work is needed to fully document the costs of administering the licensing program and to determine whether the business licensing fee should be raised.

ARIZONA DEPARTMENT OF REVENUE

J. Elliott Hibbs
Director

Bruce Babbitt
Governor

SEP 1985
RECEIVED
AUDITOR
GENERAL

September 24, 1985

Mr. Douglas R. Norton
Auditor General
2700 North Central
Phoenix, Arizona 85003

Dear Mr. Norton:

Your staff's audit clearly points out many of the obstacles faced in the creation and evolution of both the Taxpayer Assistance Section and the Bingo Section. It is important, however, that people reading this report understand that both these sections have just emerged and are continuing to develop.

The Taxpayer Assistance Section was established two years ago with only nine full-time employees. Today it has forty-three. In the beginning, the staff worked along with co-workers borrowed from other parts of the agency to overcome a backlog of 20,000 letters...while keeping pace with newly arriving inquiries. Today, the staff is generally able to keep up with the mountain of mail and to provide increasingly higher-quality responses. In 1983-84, it answered one-third of a million taxpayer inquiries.

The past fiscal year saw Taxpayer Assistance embark on a new course with substantial automation, more and better-trained employees, and sizable improvements in systems and procedures.

Your audit has reinforced many of the conclusions we made about what needed to be done, and it also has provided new insights that will help us as we continue to upgrade service to the taxpayers.

A similar situation exists in the Bingo Section. This is not coincidental. Both sections were identified as problem areas and combined with a third section to form the Division of Taxpayer Services in August 1983 so they would receive more attention.

The Bingo section also used to be considerably understaffed, with only three, full-time employees statewide who barely had time to do the basic paperwork. It now has thirteen who perform specialized functions. The section has begun a major program to teach bingo operators to follow laws and regulations, using seminars, a newsletter and other efforts. We proposed many changes in bingo statutes to make

Mailing address (Capitol):
1700 W. Washington
Phoenix, AZ 85007

Other locations:
Phoenix Uptown
5555 N. 7th Avenue

Tucson
402 W. Congress

them more enforceable and easier for lay people to understand. We brought in a new degree of professionalism. Finally, we began working closely with the Department of Public Safety on in-depth criminal investigations.

Your staff has been cooperative and helpful in conducting the performance audit. Their findings and recommendations will help us to improve the administration of the Taxpayer Services Division.

Please contact me if you have any questions concerning our written reply.

Sincerely,

ARIZONA DEPARTMENT OF REVENUE

J. Elliott Hibbs
Director

DEPARTMENT OF REVENUE COMMENTS

PRELIMINARY REPORT OF THE AUDITOR GENERAL

PERFORMANCE AUDIT - DIVISION OF TAXPAYER SERVICES

The conclusions in the report reflect problem areas the Department has encountered in the establishment of both the Taxpayer Assistance Section and the Bingo Section. We agree with most of the findings and have many efforts in progress which will address these areas.

Our comments on the findings are offered in the sequence of the report.

Finding I: Taxpayer Assistance is not adequately meeting public demand for service.
Recommendation 1: Taxpayer Assistance should upgrade its phone service by calculating public demand, establishing adequate service levels and assessing its staffing needs on a continuous basis.

DOR RESPONSE:

THE DIVISION WILL OBTAIN AN OVERFLOW METER, OR PEG COUNT, FOR THE PHONE SYSTEM AS WELL AS UTILIZE AN ADAPTATION OF THE CALIFORNIA AND IRS FORMULAS TO MONITOR PHONE DEMAND.

Recommendation 2: The Legislature should consider funding Taxpayer Assistance's plans to implement its Taxpayer Assistance and Control System.

DOR RESPONSE:

WE CONCUR WITH THIS RECOMMENDATION AS THE TAXPAYER REQUEST ASSISTANCE AND CONTROL SYSTEM, A COMPUTER TRACKING SYSTEM KNOWN AS "TRACS", WILL ENABLE THE DIVISION TO MONITOR TAXPAYER INQUIRIES, TO PRODUCE MANAGEMENT INFORMATION REPORTS.

Recommendation 3: The Legislature should consider adopting Taxpayer Assistance's plans to increase and reclassify its full-time employee positions, which includes additional levels of supervisory personnel and less dependence on temporary workers.

DOR RESPONSE:

WE CONCUR WITH THIS RECOMMENDATION. THIS IS A CRITICAL NEED BECAUSE THE PAY LEVEL OF MOST OF OUR CURRENT FTE'S MAKES IT HARD TO KEEP GOOD WORKERS TO DO THE HIGHLY TECHNICAL WORK.

Recommendation 4: DOR should develop a comprehensive program for training staff in its Taxpayer Assistance Section.

DOR RESPONSE:

WE RECENTLY HAVE INCREASED OUR TRAINING STAFF SUBSTANTIALLY AGENCY-WIDE. WE WILL NEED TO ALLOCATE MORE TRAINING RESOURCES TO TAXPAYER ASSISTANCE, WHILE REVIEWING THE INTERNAL TRAINING PROGRAM AS WE CONTINUE UPGRADING THAT SECTION.

Recommendation 5: DOR should examine, update and write operating procedures. These procedures should be accessible to the staff to ensure that responses to taxpayers' problems and inquiries are made uniformly and correctly.

DOR RESPONSE:

WE AGREE AND HAVE BEEN REVIEWING AND REVISING OUR WRITTEN AND UNWRITTEN PROCEDURES THROUGH TASK FORCE ANALYSIS AND BY ASSIGNING PEOPLE TO OVERHAUL THEM WHERE NECESSARY.

Recommendation 6: Taxpayer Assistance should continue to improve the quality of its management information so it can adequately evaluate its operation's staffing needs and performance.

DOR RESPONSE:

THE FULL IMPLEMENTATION OF TRACS WILL PROVIDE ADDITIONAL MANAGEMENT INFORMATION AS WILL THE REPORTS GENERATED BY THE PHONE SYSTEM. ADDITIONALLY, REPORTS REVIEWED BY THE AUDITOR GENERAL'S STAFF HAVE BEEN REVISED TO PROVIDE MORE DETAILED INFORMATION.

Finding II: DOR needs to further strengthen and improve bingo regulation and enforcement.
Recommendation 1: The Legislature should consider developing a multitiered bingo licensing system.

DOR RESPONSE:

WHILE A DISTINCTION EXISTS BETWEEN SMALL AND LARGE BINGO OPERATIONS, WE AGREE CONSIDERATION SHOULD BE GIVEN TO FURTHER DIFFERENTIATING THE LICENSES TO ALLOW FOR VARYING LEVELS OF REGULATION DEPENDING ON THE AMOUNT OF MONEY INVOLVED.

Recommendation 2: DOR should: A. Conduct routine and investigative audits of licensees.

DOR RESPONSE:

WE AGREE AND ARE IN THE PROCESS OF HIRING AN AUDITOR FOR THE BINGO SECTION.

Recommendation: B. Conduct routine and undercover compliance visits of licensees.

DOR RESPONSE:

THE DEPARTMENT DOES CONDUCT UNDERCOVER INVESTIGATIONS AND UNANNOUNCED COMPLIANCE CHECKS. HOWEVER, WE CANNOT CONDUCT UNDERCOVER COMPLIANCE CHECKS BECAUSE, DUE TO OUR EMPHASIS ON PUBLIC OUTREACH AND EDUCATION, THE BINGO INVESTIGATORS HAVE BECOME KNOWN TO THE BINGO INDUSTRY AND COMMUNITY. UNDERCOVER INVESTIGATORS AT BINGO GAMES WOULD NOT LEARN MUCH ABOUT FINANCIAL VIOLATIONS ANYWAY BECAUSE MISUSE OF FUNDS OR SKIMMING WOULD NOT BE OBSERVABLE BY AN INVESTIGATOR POSING AS A PLAYER. (FOR IN-DEPTH CRIMINAL INVESTIGATIONS, THE DEPARTMENT IS OPERATING IN CONJUNCTION WITH THE DEPARTMENT OF PUBLIC SAFETY.)

Recommendation C: Require licensees to maintain per occasion reports.

DOR RESPONSE:

REGULATIONS TO REQUIRE REPORTING BY BINGO OCCASION WERE INCLUDED IN PROPOSED DOR RULES AND REGULATIONS SUBMITTED TO THE GOVERNOR'S REGULATORY REVIEW COUNCIL ON AUGUST 13, 1985 AND PASSED ON SEPTEMBER 3, 1985.

Recommendation D: Enforce the provisions of A.R.S. 5-406.R and eliminate volume discounts for bingo playing cards that exceed the $50 criteria.

DOR RESPONSE:

REGULATIONS TO ELIMINATE VOLUME DISCOUNTS ALSO WERE PASSED ON SEPTEMBER 3, 1985.

Recommendation E: Conduct comprehensive criminal background investigations of individuals representing qualified organizations applying for licensure and use the fingerprint application card system.

DOR RESPONSE:

THE USE OF FINGERPRINT CARDS FOR BINGO LICENSE APPLICANTS HAS PREVIOUSLY BEEN DETERMINED TO PRESENT AN UNNECESSARY EXPENSE AND BURDEN FOR THE MANY QUALIFIED ORGANIZATIONS THAT OPERATE SMALL GAMES. THE INDIVIDUALS OPERATING THESE GAMES ARE VOLUNTEERS PROVIDING RECREATION AND ATTEMPTING TO RAISE FUNDS FOR THEIR RESPECTIVE ORGANIZATIONS. REQUIRING THEM TO BE FINGERPRINTED WOULD IMPOSE AN UNNECESSARY BURDEN. THE CONCEPT OF A MULTITIERED LICENSING SYSTEM, HOWEVER, WOULD FACILITATE THE USE OF DIFFERING REQUIREMENTS FOR SMALL, MEDIUM AND LARGE LICENSEES. THE FINGERPRINTING OF APPLICANTS FOR LARGE GAME LICENSES UNDER THIS TYPE OF SYSTEM WOULD BE HELPFUL IN DETECTING PRIOR CRIMINAL INVOLVEMENT.

blm/ml

APPENDIX I

FORMULA USED BY CALIFORNIA'S TAXPAYER SERVICES BUREAU TO DETERMINE PUBLIC DEMAND FOR PHONE SERVICE

For California's Telephone Center the actual number of individuals who attempt to call is calculated by a formula that adjusts the figures for repeat dialers and those who hang up before talking to anyone. The formula uses the following actual data provided by the telephone system.

L = Lost Calls (the number of callers who hang up before talking to anyone.

C = Completed Calls (the total number of calls answered by the system, less the lost calls).

B = Busy Signals (the number of times all lines were busy and the caller received a busy signal).

Demand is calculated by using the above data in the following formula:

$$\text{DEMAND} = \frac{C + \sqrt{C^2 + \frac{C(B+L)}{0.6}}}{2}$$

The resulting demand estimate has been reviewed with telephone company personnel and compared to some sample information provided by them. There is general agreement that the formula resulted in a reasonable estimate of the actual number of individuals seeking telephone assistance.

APPENDIX II

TAXPAYER ASSISTANCE RESPONSE TO PUBLIC DEMAND
MAY 14 THROUGH 18, 1984

(SEE ALSO APPENDIX I)

Calls Answered: 7,180

Busy Signals: 170,203*

$$\text{Public Demand} = \frac{7{,}180 + \sqrt{7{,}180^2 + \frac{7{,}180\ (170{,}203)}{0.6}}}{2}$$

Public Demand = 26,439

Calls Answered as a Percentage of Demand = 7,180 : 26,439 = 27%

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* Data obtained through Mountain Bell study conducted May 14 through 18, 1984.

APPENDIX III

CORRESPONDENCE AND TIME REPORT USED BY CALIFORNIA'S TAXPAYER SERVICES BUREAU

TAXPAYER SERVICES - CORRESPONDENCE TIME AND PRODUCTION REPORT

☐ PIT ☐ CORP ☐ HI

PERIOD ENDED

NAME

☐ PERM ☐ TEMI
☐ BORROWED

☐ WEEKLY
☐ MONTHLY

PART A ACTIVITY	DATE OR WEEK ENDING (FRI) _____		DATE OR WEEK ENDING (MON) _____		DATE OR WEEK ENDING (TUES) _____		DATE OR WEEK ENDING (WED) _____		DATE OR WEEK ENDING (THUR) _____		DATE OR WEEK ENDING ( ) _____		TOTAL	
	NO. UNITS	HRS.	NO. UNITS	HRS.	NO. UNITS	HRS.	NO. UNITS	HRS.	NO. UNITS	HRS.	NO. UNITS	HRS.	NO. UNITS	HR
P I T														
1. RETURN PROCESSING														
2. TAXPAYER ASSISTANCE														
3. RETURNED WARRANTS														
4. CLAIMS														
5. NTC – MATH VER														
6. FILING ENFORCEMENT														
7. COLLECTIONS														
8. SDI – EXCESS														
9. SDI – REFUND														
C O R P														
10. TAXPAYER ASSISTANCE														
11. STATEMENTS														
12. EXEMPTS														
13. CORP DLC														
14. CFE														
15. COLLECTIONS														
H R A														
16. MISC CORRES														
17. EC CORRES														
18. TRANSCRIPTS														
19. RETURNED WARRANTS														
20. EXCEPTIONS														
21. COLLECTIONS														
22. SUBTOTAL – A														
23. SUBTOTAL – B (from line 38)														
24. TOTAL – A + B														

TAXPAYER SERVICES – CORRESPONDENCE
TIME AND PRODUCTION REPORT

☐ PIT ☐ CORP ☐ HR.

☐ WEEKLY ☐ MONTHLY	DATE OR WEEK ENDING (FRI) _____	DATE OR WEEK ENDING (MON) _____	DATE OR WEEK ENDING (TUES) _____	DATE OR WEEK ENDING (WED) _____	DATE OR WEEK ENDING (THUR) _____	DATE OR WEEK ENDING ( ) _____	TOTAL
PART B ACTIVITY	HRS.	HRS.	HRS.	HRS.	HRS.	HRS.	HRS.
25. INVENTORY CONTROL							
26. QUALITY REVIEW							
27. SYSTEM TEST SUPPORT							
28. TPS SUPPORT ACTIVITIES							
29. SPECIAL PROJECTS (EXPLAIN BELOW)							
30. MISC NON-PROD (EXPLAIN BELOW)							
31. MGMT/SUPERVISION							
32. TECHNICAL SUPPORT							
33. TRAINING (FORMAL)							
34. TNG (INFORMAL) (EXPLAIN BELOW)							
35. SICK LEAVE							
36. VACATION							
37. AUTHORIZED TIME OFF							
38. **SUBTOTAL – PART B**							
39. **TOTAL HRS A + B** (from line 24)							
40. PLUS LOANS – WITHIN 724							
41. PLUS LOANS – OUTSIDE 724							
42. PLUS VACANT							
43. LESS BORROW WITHIN 724							
44. LESS BORROW OUTSIDE 724							
45. **TOTAL AUTHORIZED HOURS (CALENDAR)**							

EXPLANATIONS AS NECESSARY

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