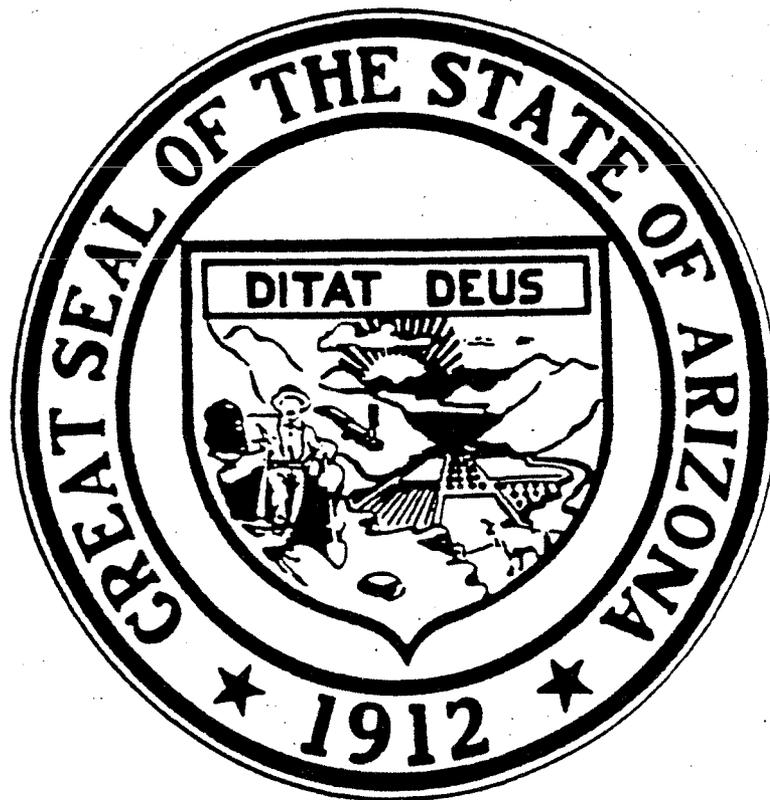


STATE OF ARIZONA

PROJECT S.L.I.M. REPORT ON THE

DEPARTMENT OF REVENUE



July 2, 1992

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PROJECT SLIM
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July 2, 1992

Mr. Paul Waddell
Director
Arizona Department of Revenue
1600 West Monroe
Phoenix, AZ 85007

Dear Mr. Waddell:

We have completed the Governor's Statewide Long-Term Improved Management (SLIM) review of the Arizona Department of Revenue (DOR), and are pleased to present to you our report of findings and recommendations. Our analysis was conducted from March 1992 through May 1992.

This summary describes the objectives of the review, the approaches used throughout the analysis, and the major changes recommended as a result of the study. We have quantified the potential benefits and summarized the key implementation tasks, including legislative support needed to implement proposed recommendations into actual benefits. Our detailed findings and recommendations follow this summary.

The total recommendations identify approximately \$6.4 million in benefits, including \$6.1 million in revenue enhancement, and \$.3 million in general savings.

OBJECTIVES AND GOALS

The overall objective of this study was to find ways to improve the delivery of services in DOR, using various business analysis and Total Quality Management (TQM) techniques. Our goal was to streamline processes and unnecessary work, improve systems and procedures, and realign groups with similar functions to deliver services more effectively at a lower cost.

APPROACH

We approached this study by taking an integrated view of the organization. For each area, we reviewed the mission and strategic focus; product/process delivery methodology; process technology;

methods for using and managing information; performance measurements; quality service issues and measurements; organizational structures; and the logistics and physical assets used by the organization to deliver products and services.

We began by using the shelf data provided to us by DOR to become familiar with the mission, size, structure, and responsibilities of the major areas of the Agency. We conducted interviews with all levels of supervision and select technical and line personnel to enable us to focus on areas which could be improved. Where appropriate, we used interviews to develop detailed process flows which enabled us to identify non-value added elements that could be eliminated. During the course of our review, we conducted over 135 interviews of Agency and external personnel (see Exhibit 1, SLIM Interview List - DOR).

In addition to developing process flows, we employed the following analytical techniques:

- Quantification of cost to provide a quality service or product where it appeared the cost could be reduced
- Identification of prevention activities (upstream) to reduce more costly failures further in the process (downstream)
- Assessment of the organizational structure including consideration of the following issues:
 - Span of control
 - Managerial layering
 - Alignment of missions
 - Distribution of responsibilities
 - Fragmentation of duties
 - Overlapping or redundant functions.

Our first step in analyzing the organization involved identifying opportunities for streamlining processes and modifying practices to improve performance provided by the various units. Once this streamlining was completed, we reviewed the remaining units to assess their organizational placement and structure. Finally, organizational changes are proposed to achieve alignment of missions; appropriate spans of control; reduced layering to achieve organizational flexibility and empowerment at the lower layers of the organization; and elimination of duplicative and fragmented duties.

In order to quantify the effects of making changes, we obtained time estimates for work requirements. In addition, we used Agency available statistics to assess the variety and volume of transactions processed by an area.

As recommendations were developed, we reviewed the proposed changes with appropriate supervisors and managers to determine completeness of the analysis. In addition, we met with senior Agency management to review our findings on a regular basis.

SUMMARY FINDINGS & RECOMMENDATIONS

Potential opportunities for increasing revenues and effecting cost savings can be realized by streamlining various processes, and modifying procedures and approaches to conducting business. Additional savings can be achieved by reorganizing the units to align missions; reduce duplicative efforts; develop appropriate spans of control; and reduce layering. Exhibit 2, Summary of Recommendation, Titles and Savings, shows the summary of savings for each of the analyses performed.

Opportunities for Revenue Enhancement

Approximately one-half of our recommendations relate to opportunities for enhancing revenues. These recommendations are entitled as follows:

- Additional Attorney Position
- Sales Tax License Enforcement

- Corporate Audit Restructure
- Withholding Tax Transfer
- Quality Control Functions - AD's Office
- Individual Income Tax Audit
- We believe establishing another DOR Attorney Position in the Attorney General's office will enable the Agency to recover up to \$1.98 million in the current case backlog for an investment of \$55 thousand, per year
- The Sales Tax License Enforcement recommendation increases the number of sales tax license positions by three, enabling those positions to bring on-line potential licensees. This should result in annual net revenue enhancements of approximately \$280 thousand
- Under Corporate Audit Restructure, through the reclassification and/or establishment of new positions, a greater audit capacity is created so as to result in increased revenues. The projected revenue enhancement has been estimated at \$1.95 million
- The transfer of the Withholding Tax program to the Department of Economic Security/Unemployment Insurance frees up two Field Auditors - enabling them to work on income production in the Sales and Corporate Audit sections. This will result in increased revenues of approximately \$770 thousand
- Restructuring the Quality Assurance function in the Tax Enforcement Assistant Director's Office will result in the freeing up of one Revenue Field Auditor position. This position when reassigned to Sales Audit should generate some \$420 thousand a year in collections
- Establishing four additional units frees up two Revenue Auditor positions enabling the Individual Income Tax Audit section to realize an average \$353 thousand in collections per auditor (per current statistics) for a total of \$.7 million.

Mr. Paul Waddell, Director
Department of Revenue
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In all, these revenue enhancing recommendations will result in an additional \$6.1 million dollars being realized by the Department of Revenue for the State of Arizona.

OTHER RECOMMENDATIONS

Division Consolidation

It is our understanding that the Division of Oversight & Analysis has been in existence less than two years. The sections and units reporting to it previously were disbursed among several other divisions and areas within DOR.

In our opinion, the creation of a separate division to house these diverse functions is not justified from either an organizational or cost/benefit stand-point. We recommend redistributing the various functions among the Administrative Services, and Taxpayer Support Divisions as well as the Deputy Director's Office.

This recommendation results in the elimination of one Assistant Director position, one Manager/Supervisor position and two Executive Assistant positions and pertains to organizational alignment and not to personnel placement.

The recommendation will result in an annual savings of \$174,000.

Opportunity Cost - Legal Research

Several sections within DOR are required to conduct research, analysis and interpretation of existing State tax laws. At present, this research involves primarily manual investigation off-site at various libraries or via electronic research facilities available at Arizona State University and the Capitol Library.

We recommend that DOR acquire Tax Law Library software on compact disk and install it on one or more local area networks (LAN) within the Department. The software is available for lease for under \$3000/year; the one-time cost of the Compact Disk is \$600.

We have estimated that some 16,008 hours are spent annually in the research, analysis and interpretative functions. Assuming that one-half of this amount represents the research function, and

realizing that a large percentage of this time can be reinvested to realize benefits in increased productivity, we estimate an annual opportunity savings to the Department of \$47,000. Factoring in the software and hardware expenditures, this nets out to \$45,000/year in savings.

Comptroller's Office - Financial Services Staffing

The ratio of supervisors to staff in the Financial Service Unit is high. The reconciliation area has a ratio of 1:3; the expenditure area has a ratio of 1:4; the checks/warrants and surplus property areas have a ratio of 1:2. Additionally, a ratio of 1:2 supervisor/supervisor exists for the unit overall.

We recommend revising the organizational structure of the Financial Services Unit in the Comptroller's Office and eliminating one of the two second level supervisors.

Consolidation of revenue and expenditures functions under one supervisor will result in the elimination of one Fiscal Services Specialist for a savings of \$30 thousand/year.

Micrographics - Income/Corporate Files

The Records Management Section within the Administrative Services Division includes three sections: Micrographics, Income and Corporate Files, and the Warehouse. Two of the three sections have closely aligned functions. Both are small and each has its own supervisor. The Micrographics unit is staffed by a supervisor and two leads.

In effect, there are four positions contributing to the supervision of seven full-time and two part-time employees.

We recommend eliminating one of the two Administrative Support Supervisors and merging the Micrographics and Income/Corporate Files sections. The resulting unit would have seven line employees of which two would be leads assisting in work scheduling and monitoring, and one supervisor.

Cost savings associated with this consolidation amount to \$26 thousand/year.

Clerical Support - Taxpayer Information & Assistance

Clerical assistance within the Taxpayer Information and Assistance Section is rendered through a separate clerical unit headed by an Administrative Support Supervisor.

We recommend reassigning those clerical unit employees who handle casework typing and document pulls to the case work units coordinating the research and generating the typewritten work. The remaining individuals who are involved in receptionist duties should be assigned to either of the unit supervisors or the section administrator.

This would result in the elimination of the Clerical Unit Supervisor for an annual savings of \$26,538. It would also establish quality control at the lowest possible level and a point closest to the originating case research. All elements of the case, including basic research, documents reviewed, action taken, and correspondence developed will be under the control of the case work unit supervisor.

Reassign Quality Control Function to Line Units

Within the Taxpayer Information and Assistance Section is a two person quality control unit reporting to the Section Manager. The quality control of the work of the section could be improved by having this function performed by the sub unit where the work originates.

We recommend eliminating the quality control unit and realigning the quality control functions currently administered by the Q.C. unit with the first level case worker supervisor, and as required to the two Business and Income Unit managers.

Elimination of the quality control unit will result in annual savings of \$49,752.

Armored Car Pickup Schedule

An opportunity exists to accelerate the deposit of revenue received each day by DOR in connection with Income Tax returns. The Treasurer's Office has advised us that the availability of these additional deposits would help improve cash flow at critical periods in the year.

At present, a cut-off time of 2:00 pm has been established for Remittance Processing to submit its final transmittal of the day of receipts to the Comptroller's Office. This early cut-off is required in order for the Comptroller to have sufficient time to prepare the Cash Letter and accompanying deposit documents for the depositary bank.

We recommend the State Treasurer's Office negotiate for a later (4:30 pm) pickup by the depositary bank. We have been advised that they can accept deposits up to 6:00 pm.

No savings figures have been associated with this recommendation as the main benefit lies in having additional deposits available to the State Treasurer each day. This is particularly important during the April and May time periods when large expenditures for School Aid become due.

SUMMARY OF SAVINGS

The improved services and benefits outlined above are achieved through the 13 recommendations discussed in this report. The recommendations apply to several areas such as organizational restructuring, process changes, revenue enhancement, management controls, functional realignment and staffing requirements.

Exhibit 2, DOR Summary of Recommendation Titles and Savings, outlines the impact of each of the recommendations and reflects savings resulting from revenue enhancement and general savings. The magnitude of each is as follows:

Revenue Enhancement	\$6,186,000
General Savings	<u>369,049</u>
Total	\$6,555,049
Less Annual Recurring Costs	<u>-136,315</u>
Net Savings	<u>\$6,418,734</u>

OTHER ISSUES

Other miscellaneous areas of opportunity for Agency improvements, not addressed because of the limited duration of review, are as follows:

- **Corporate Tax** - Further automation of this area appears warranted. We noted that there are three generations of lap-top computers in use throughout the unit. A number of these are unable to utilize the standard MicroSoft Version 5.5 Word Processing software. This unit needs a policy manual as well as formalized training for its staff.
- **Warehouse** - Administrative Services informed us that they are running out of storage space in their present warehouse. We recommend that DOR enter into discussions with AHCCCS Management to explore using their warehouse. Most, if not all, of their current warehouse space should become available within the next year. This warehouse is much larger than DOR's; the lease costs AHCCCS is currently paying per square foot of storage is substantially less than DOR's present costs.
- **Phone System** - The DOR telephone system is limited but the situation on the 5th floor is very bad. The telephones ring excessively before a response and then the caller is likely to be put on hold. This generates poor public relations.
- **Sales Tax** - This appears to be an overly complex system; one which does not promote compliance.
- **Policy/Training Loop** - There is a need to establish in all audit areas, a formal method for translating audit decisions (informal and formal) into policy and training programs.
- **Quality Control** - The supervisors in the various audit areas should increase their activities as an ongoing and integral part of quality control activities.
- **Informal Hearings and Protests** - There are hearings and protest units or activities housed in each of the audit sections. These are currently being reviewed by DOR for possible merging

into a single unit. There are economies of scale as well as the possibility of freeing auditors for audit work.

- Individual Audit - As noted in one of our earlier recommendations, the clerical situation needs to be closely reviewed for reorganization. It could be decentralized to the audit units or restructured to reflect a small centralized unit with some decentralization.
- Training - Efforts to combine training classes across agencies through the coordinating auspices of the DOA Training Unit should be encouraged. Also, opportunities for pooling related services, such as audio/video production services and other instructional media, as well as instructors themselves, should be further explored.
- Publications - The Department of Commerce publishes a "Guide to Establishing a Small Business" which includes a chapter entitled "Licensing Requirements for Selected Businesses and Professions." Information in this chapter is collected and published (per statute) by the Department of Revenue. The information is collected by DOR via surveys of various state agencies to determine their licensing requirements. Since two state agencies are duplicating the same published information, and the "Guide" undoubtedly has the potential for wider distribution, it may be appropriate to shift the legislative authority for publication to the Department of Commerce.
- Job Titles/Responsibilities - Disparity frequently exists between actual job responsibilities and the duties as listed in the job/grade specifications.

IMPLEMENTATION

Implementation is the critical step in the process of achieving savings. Potential savings are often identified but not achieved when the implementation process is distracted by day-to-day activities, and managers shy away from the necessary reduction in staff. Successful implementations are marked by two things: (1) a strong commitment from senior management to achieve as much of the savings as proves possible; and (2) designation of implementation team leaders with the mental toughness to see the task through to completion.

Mr. Paul Waddell, Director
Department of Revenue
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The implementation process is best carried out soon after the review process. This maintains momentum while the topics are fresh in people's minds. We estimate that most of the recommendations contained in the report can be implemented within a period of twelve months. Some recommendations, however, may require additional time as they are dependent upon legislative approval.

Our recommended Implementation Plan in Exhibit 3, DOR Implementation Schedule, outlines an implementation sequence and approximate duration for each recommendation. A detailed plan will be established at the outset of the implementation. Individual recommendation and implementation requirements are included with the recommendations in the detailed section of this report.

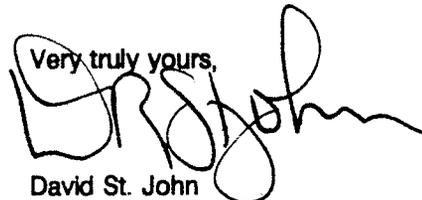
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Mr. Paul Waddell, Director
Department of Revenue
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We wish to thank you and your entire staff for their complete cooperation and support of our efforts during this study.

We appreciate the opportunity to be of service to the Governor and the SLIM Steering Committee in this endeavor. Should you have any questions regarding this report please feel free to contact the Project Executive or any member of your Project SLIM Team:

- James Griffith, Department of Economic Security
- Carl Jager, Department of Transportation
- Phyllis Knox, Department of Health Services
- Thomas Donahue, Coopers & Lybrand

Very truly yours,

David St. John
Executive Director
Project SLIM

SLIM INTERVIEW LIST

DEPARTMENT OF REVENUE (DOR)

Date: Apr 20 - 10am

Name	Title	Date	Time	Interviewer
Kickoff Meeting	NA	Mar.5,92	10:00am	Team
Confid. Training	NA	Mar.6,92	8:00am	Team
P. Waddell	Director	Mar.9,92	10:00am	Team
R. Serino	AD, Data Management	Mar.10,92	3:00pm	Team
R. Milanese	AD, Taxpayer Support	Mar.11,92	8:15am	Team
J. McVey	AD, Propty Valuation	Mar.11,92	1:00pm	Team
H. Scott	AD, Oversight & Analysis	Mar.11,92	2:30pm	Team
k. Behringer	Deputy Director	Mar.12,92	10:00am	Team
J. Timko	AD, Administrative Services	Mar.12,92	1:30pm	Team
S. Shiffrin	AD, Tax Enforcement	Mar.12,92	3:00pm	Team
D. McCuin	Corporate Income Tax Admin.	Mar.16,92	1:00pm	Griffith
A. Arant-Cousins	Exec. Asst. Tax Enforcement	Mar.16,92	10:00am	Griffith
M. Metko	Purchasing Manager	Mar.16,92	2:30pm	Jager/Knox
R. Cobbin	Records Management Supervisor	Mar.16,92	8:30am	Jager/Knox
G. Sailors	Admin. Services Officer IV	Mar.16,92	10:00am	Jager/Knox
L. Gantz	EDP Programmer Analyst III	Mar.16,92	1:30pm	Jager/Knox
J. Postal	Trans. Privilege Tax Admin.	Mar.16,92	2:30pm	Griffith
J. Norris	Collections Administrator	Mar.16,92	4:00pm	Griffith
R. Robinson	Indiv. Income Tax Administrator	Mar.16,92	8:30am	Griffith
B. Pipkin	Administrative Asst. III	Mar.17,92	10:00am	Jager/Knox
P. Dunbar	Training Administrator	Mar.17,92	1:30pm	Jager/Knox
A. Moss	Revenue Supervisor III	Mar.17,92	2:30pm	Griffith
J. Ward	Administrative Support Supvr.	Mar.17,92	8:30am	Jager/Knox
D. Barnes	Information Center Mgr.	Mar.17,92	3:00pm	Donahue
K. Kichler	Sys. & Programming Mgr.	Mar.17,92	1:30pm	Donahue
G. Shagena	Computer Operations Mgr.	Mar.17,92	8:30am	Donahue
C. Anthony	Rev. Field Auditor II	Mar.18,92	1:30pm	Griffith
L. Prins	Administrator	Mar.18,92	3:30pm	Knox
M. Reyes	Admin. Supervisor	Mar.18,92	1:00pm	Jager
E. Leyba	Administrator	Mar.18,92	8:30am	Donahue
J. Russell	Property Appraiser IV	Mar.18,92	1:30pm	Donahue
M. Finley	Admin. Systems Supvr I	Mar.18,92	2:00pm	Jager
W. Nowiin	Property Appraiser	Mar.18,92	3:00pm	Knox
D. Hesselgrave	Examiner Tech I	Mar.18,92	3:00pm	Knox
M. Lewis	Clerk Typist III	Mar.18,92	1:00pm	Knox
S. Franzman	Admin. Svcs. Officer IV	Mar.18,92	3:00pm	Knox
B. Belon	Manager	Mar.18,92	3:00pm	Donahue

SLIM INTERVIEW LIST

DEPARTMENT OF REVENUE (DOR)

Date: Apr 20 - 10am

Name	Title	Date	Time	Interviewer
C. Hudak	Rev. Field Auditor III	Mar. 18, 92	10:30am	Griffith
V. Wright	Rev. Field Auditor II	Mar. 19, 92	9:30am	Griffith
T. Schlosser	Prog. & Proj. Spec. II	Mar. 19, 92	8:30am	Griffith
M. Bacon	Fiscal Services Spec. II	Mar. 19, 92	1:30pm	Knox
G. Nichols	Facilities Supervisor	Mar. 19, 92	9:30am	Jager
M. Finley	Admin. Systems Supvr I	Mar. 19, 92	3:00pm	Jager
T. McGinnis	Rev. Field Auditor II	Mar. 19, 92	10:30am	Griffith
L. Stakes	Fiscal Services Sys. Analyst	Mar. 19, 92	4:00pm	Knox
L. Montgomery	Fiscal Services Spec. II	Mar. 19, 92	9:00am	Knox
Y. Hopkins	Clerk Typist	Mar. 19, 92	9:30am	Jager
S. Noyes	Fiscal Services Spec. II	Mar. 19, 92	10:30am	Knox
W. Kusnerz	Systems Engineering Mgr.	Mar. 19, 92	8:30am	Donahue
I. Hardin	Fiscal Services Spec. IV	Mar. 19, 92	2:30pm	Knox
S. Flores	Forms Analyst III	Mar. 20, 92	2:00pm	Knox
T. Stitt	Buyers Assistant	Mar. 20, 92	3:00pm	Knox
L. Gasper	Admin. Assistant III	Mar. 20, 92	9:00am	Knox
J. Becket	Clerk Typist	Mar. 20, 92	9:45am	Jager
J. Peters	Collection Supvr I	Mar. 20, 92	10:00am	Griffith
T. Simmons	Collection Supvr II	Mar. 20, 92	3:00pm	Griffith
S. Shiffrin	Assistant Director	Mar. 20, 92	1:00pm	Griffith
L. Byrd	Warehouse Worker	Mar. 20, 92	9:00am	Jager
F. Caruso	Collection Supvr. II	Mar. 20, 92	8:30am	Griffith
N. Buta	Collection Supvr I	Mar. 20, 92	1:30pm	Griffith
C. Dicken	EDP Sys Proj Mgr I	Mar. 23, 92	11:00am	Donahue
B. Marte	Collector II	Mar. 23, 92	10:00am	Griffith
F. Medina	Collection Supvr II	Mar. 23, 92	3:00pm	Griffith
K. Riley	Admin. Asst. II	Mar. 23, 92	8:30am	Griffith
V. Moore	Collection Supvr II	Mar. 23, 92	1:30pm	Griffith
A. Carella	EDP Sys Proj Mgr I	Mar. 23, 92	10:00am	Donahue
G. O'Neal	Management Analyst III	Mar. 24, 92	3:00pm	Knox
E. Pullian	Rev. Field Auditor II	Mar. 24, 92	1:30pm	Griffith
K. Vere	Admin. Supp. Svcs I	Mar. 24, 92	11:00am	Donahue
J. Timko	Assistant Director	Mar. 24, 92	1:00pm	Donahue
R. Valles	Admin. Services Officer II	Mar. 24, 92	10:30am	Donahue
N. Miller	Admin. Services Officer I	Mar. 24, 92	10:00am	Donahue
V. SonBui	Admin. Supp. Svcs I	Mar. 24, 92	10:00am	Donahue
G. Sailors	Comptroller	Mar. 24, 92	11:30am	Knox
P. Waddell	Director	Mar. 24, 92	3:30pm	Donahue
R. Petrenka	Deputy Treasurer	Mar. 24, 92	2:00pm	Donahue
B. Ward	Administrator	Mar. 24, 92	8:30am	Knox

SLIM INTERVIEW LIST

DEPARTMENT OF REVENUE (DOR)

Date: Apr 20 - 10am

Name	Title	Date	Time	Interviewer
D. Brewer	Admin. Supp. Svcs I	Mar.24,92	9:00am	Donahue
K. Abramsohn	Chief Hearing Officer	Mar.24,92	10:00am	Knox
N. Green	Admin. Services Officer I	Mar.24,92	11:00am	Donahue
K. Vere	Admin. Supp. Svcs I	Mar.24,92	11:00am	Donahue
G. Meyers	Administrator	Mar.24,92	1:30pm	Knox
M. Stacey	Rev. Field Auditor Sup. I	Mar.24,92	3:00pm	Griffith
D. Fredenburg	Admin. Svcs. Officer IV	Mar.25,92	1:30pm	Knox
K. Abramsohn	Chief Hearing Officer	Mar.25,92	8:30am	Knox
S. Silver	Rev. Field Auditor III	Mar.25,92	3:00pm	Griffith
D. Plaughman	Rev. Field Auditor II	Mar.25,92	1:30pm	Griffith
V. Penez	Rev. Field Auditor II	Mar.25,92	10:00am	Griffith
R. Petrenka	Deputy State Treasurer	Mar.25,92	2:00pm	Donahue
R. Gaddis	Rev. Field Auditor II	Mar.25,92	8:30am	Griffith
E. Snow	Management Analyst III	Mar.25,92	3:00pm	Knox
D. Fredenburg	Administrative Svcs Officer	Mar.25,92	1:30pm	Knox
D. Walth	Administrator	Mar.25,92	10:00am	Knox
D. Alcorn	Rev. Field Auditor III	Mar.26,92	1:30pm	Griffith
A. Garcia	Rev. Field Auditor Sup III	Mar.26,92	10:00am	Griffith
J. Wallen	Management Analyst III	Mar.26,92	8:30am	Knox
K. McQuilty	Rev. Auditor III	Mar.26,92	8:30am	Griffith
M. Polashek	Rev. Field Auditor II	Mar.26,92	3:00pm	Griffith
W. Molina	Clerk Typist III	Mar.27,92	10:00am	Griffith
B. Brion	Field Collector II	Mar.27,92	1:30pm	Griffith
B. Rivera	Exam Technician II	Mar.27,92	8:30am	Griffith
D. Muccilli	Compliance Manager	Mar.30,92	9:00am	Jager
K. Latella	Supervisor	Mar.31,92	11:30am	Jager
P. Waddell	Director	Mar.31,92	3:30pm	Team
C. Olson	Supervisor	Mar.31,92	10:30am	Jager
A. Severance	Property Appraiser IV	Mar.31,92	1:30	Knox
J. Timko	Assistant Director	Mar.31,92	9:00am	Team
C. Murray-Leyba	Admin. Svcs. Officer IV	Mar.31,92	10:30am	Knox
B. Belon	Manager	Apr.1,92	10:30am	Donahue
J. Russell	Property Appraiser IV	Apr.1,92	8:30am	Donahue
G. Sailors	Comptroller	Apr.1,92	3:00pm	Donahue
W. Nowlin	Property Appraiser/Fin. Analyst	Apr.1,92	1:30pm	Donahue
V. Weiss	Clerk Typist III	Apr.2,92	2:00pm	Jager
L. Kishbaugh	Supervisor	Apr.2,92	3:00pm	Jager
W. Eichelberger	Supervisor	Apr.2,92	9:00am	Jager
E. Leyba	Administrator	Apr.2,92	10:30am	Donahue
D. Wickersham	Manager	Apr.2,92	10:30am	Jager

SLIM INTERVIEW LIST

DEPARTMENT OF REVENUE (DOR)

Date: Apr 20 - 10am

Name	Title	Date	Time	Interviewer
L. Prins	Administrator	Apr.2,92	8:30am	Donahue
S. Franzman	Admin. Svcs. Officer IV	Apr.3,92	8:30am	Donahue
R. Gustafson	Admin. Svcs. Officer IV	Apr.3,92	1:30pm	Knox
R. Jackson	Property Appraiser IV	Apr.3,92	10:30am	Knox
S. Barney	Property Appraiser IV	Apr.3,92	3:30pm	Knox
D. McCuin	Administrator	Apr.3,92	8:30am	Griffith
T. MacConnell	Fiscal Svcs. Unit Supervisor	Apr.6,92	9:00am	Knox
G. Shagena	EDP Comp. Opns. Mgr II	Apr.7,92	9:00am	Donahue
J. Norris	Administrator	Apr.7,92	11:00am	Griffith
R. Serino	Assistant Director	Apr.7,92	9:00am	Donahue
K. Abramsohn	Chief Hearing Officer	Apr.7,92	1:30pm	Knox
S. Shiffrin	Assistant Director	Apr.10,92	9:00am	Griffith
R. Milanese	Assistant Director	Apr.14,92	3:00pm	Donahue/Jager
P. Waddell	Director	Apr.15,92	3:00pm	Donahue
J. Timko	Assistant Director	Apr.15,92	9:00am	Donahue/Jager

EXHIBIT 2

DEPARTMENT OF REVENUE

SUMMARY OF RECOMMENDATION TITLES AND SAVINGS

Total Budget: \$49,467,000

Total FTE Positions: 1277.8

June 11, 1992

Recommendation Titles	ANNUAL RECURRING BENEFITS			FTE		System Changes Required	Law Changes Required	Estimated Months to Complete	Recurring Costs To Implement	One-Time Costs To Implement
	Net Benefits	General Savings	Revenue Enhance.	REDUCTIONS	ADDITIONS					
2. Micrographics- Income/Corporate Files	\$26,538	\$26,538		1				6 months		
3. Additional Attorney Position	\$1,925,000		\$1,980,000		1			6 months	\$55,000	
4. Armored Car Pickup Schedule	\$0							completed		
5. Clerical Support- Taxpayer Info. & Assistance	\$26,538	\$26,538		1				6 months		
6. Reassign Q/C Function to Line Units	\$49,752	\$49,752		2				6 months		
7. Sales Tax License Enforcement	\$280,480		\$360,000		3			12 months	\$79,520	\$25,500
8. Corporate Audit Restructure	\$1,958,865	\$8,865	\$1,950,000		2			12 months		\$25,000
9. Withholding Tax Transfer	\$770,000		\$770,000				yes see note 1	18 months		
10. Q/C Functions- AD's Office	\$420,000		\$420,000					3 months		
11. Individual Income Tax Audit	\$710,711	\$4,711	\$706,000	1				6 months		\$25,000
12. Opportunity Cost of Manual Legal Research	\$45,740	Note 2 \$47,535		1				3 months	\$1,795	\$600
13. Division Consolidation	\$174,510	\$174,510		4				3 months		
TOTALS:	\$6,418,734	\$369,049	\$6,186,000	11	6				\$136,315	\$76,100
NET FTE SAVINGS:				5						

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Notes: 1. Legislation required to move Withholding function to Department of Economic Security.

2. Cost avoidance through elimination of one vacant position.

DEPARTMENT OF REVENUE IMPLEMENTATION SCHEDULE (PRELIMINARY)

EXHIBIT 3

TITLE	MONTHS																				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
1. COMPTROLLER'S OFFICE - FINANCIAL SERVICES STAFFING	→																				
2. MICROGRAPHICS - INCOME/CORPORATE FILES	→																				
3. ADDITIONAL ATTORNEY POSITION	→																				
4. ARMORED CAR PICKUP SCHEDULE	→																				
5. CLERICAL SUPPORT - TAXPAYER INFORMATION & ASSISTANCE	→																				
6. REASSIGN Q/C FUNCTION TO LINE UNITS	→																				
7. SALES TAX LICENSE ENFORCEMENT	→																				
8. CORPORATE AUDIT RESTRUCTURE	→																				
9. WITHHOLDING TAX TRANSFER	→																				
10. Q/C FUNCTIONS - AD'S OFFICE	→																				
11. INDIVIDUAL INCOME TAX AUDIT	→																				
12. OPPORTUNITY COST OF MANUAL LEGAL RESEARCH	→																				
13. DIVISION CONSOLIDATION	→																				

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COMPTROLLER'S OFFICE - FINANCIAL SERVICES STAFFING

Current Situation

The Comptroller's office is located within the Division of Administrative Services. Key strategic business functions are divided among four office units. These office units include Financial Control, Support/Payroll, Special Tax, and Financial Services.

Financial Services Unit

The Financial Services Unit is the core of financial accounting functions. The unit is responsible for handling DOR accounting functions including the reconciliation of all DOR revenue; arranging and processing DOR travel claims; and interfacing with commercial banks on deposits, returned warrants and foreign checks. Financial Service Unit personnel are currently divided into reconciliation or expenditure related functions and activities.

The spans of supervisory control in the Financial Services Unit is narrow, and is comprised of 12 FTE positions with the following supervisor/employee ratios:

- A 1:3 supervisor/employee ratio exists in the reconciliation area. The Fiscal Service Specialist III supervises all reconciliation functions and activities, completes the Fund Status Summary Report, processes Purchasing charge-backs for non-paper supplies and develops operating procedures. The Fiscal Service Specialist III directly supervises two Fiscal Service Specialist II positions which are responsible for reconciling sales tax revenues and the expenditure ledger of the Arizona Financial Information System (AFIS) and handling revolving funds and bank statements; and one Account Technician II position which is responsible for handling reconciliation of non-sales tax revenue such as special, income/corporate and withholding taxes

- A 1:4 supervisor/employee ratio exists in the expenditure area. The Fiscal Services Specialist II supervises expenditure related functions and activities which includes processing accounts payable claims, completing the expenditure areas of the Fund Status Summary Report, handling expenditures for all DOR Divisions and developing operating procedures. The Fiscal Service Specialist II position directly supervises one Account Technician III position which is responsible for handling travel and accounts payable claims; and three Account Technician II positions which are responsible for reconciling general fixed assets and processing paperwork for the Division
- A 1:2 supervisor/employee ratio exists in the Financial Services Unit. The Fiscal Service Unit Supervisor manages and supervises the Financial Services Unit and interfaces with all Comptroller personnel. The Fiscal Service Unit Supervisor directly supervises one Account Technician II position which is responsible for handling foreign checks and returned warrants, and coordinates bank deposits; and one Account Technician III position which is responsible for coordinating surplus property procedures and the inventory of all DOR assets which are reconciled with accounting data
- A 1:2 supervisor/supervisor ratio exists in the Financial Service Unit. In addition to the two positions in the preceding paragraph, the Fiscal Service Unit Supervisor directly supervises two supervisors, one Fiscal Service Specialist III and one Fiscal Service Specialist II (see Exhibit 4, Comptroller's Office (Financial Services Unit), Present Organizational Structure).

Impact

The organizational structure in the Financial Services Unit results in an inefficient use of supervisory personnel and unnecessary duplication. This duplication is manifested in two supervisory levels detailed in the previous section. Each of the designated supervisory personnel are spending more than 50% of their time performing tasks other than supervision. There are three working supervisors within the Financial Services Unit. Supervisory tasks could be consolidated and the supervisory ratio expanded with limited impact as Financial Services Unit personnel are cross-trained.

Recommendations

We recommend revising the organizational structure of the Financial Services Unit in the Comptroller's Office and eliminating one of the two supervising Fiscal Services Specialists. The remaining

Fiscal Services Specialist will supervise both revenue and expenditure functions within the Financial Services Unit (see Exhibit 5, Comptroller's Office, Proposed Organizational Structure (Financial Services Unit)).

Benefits

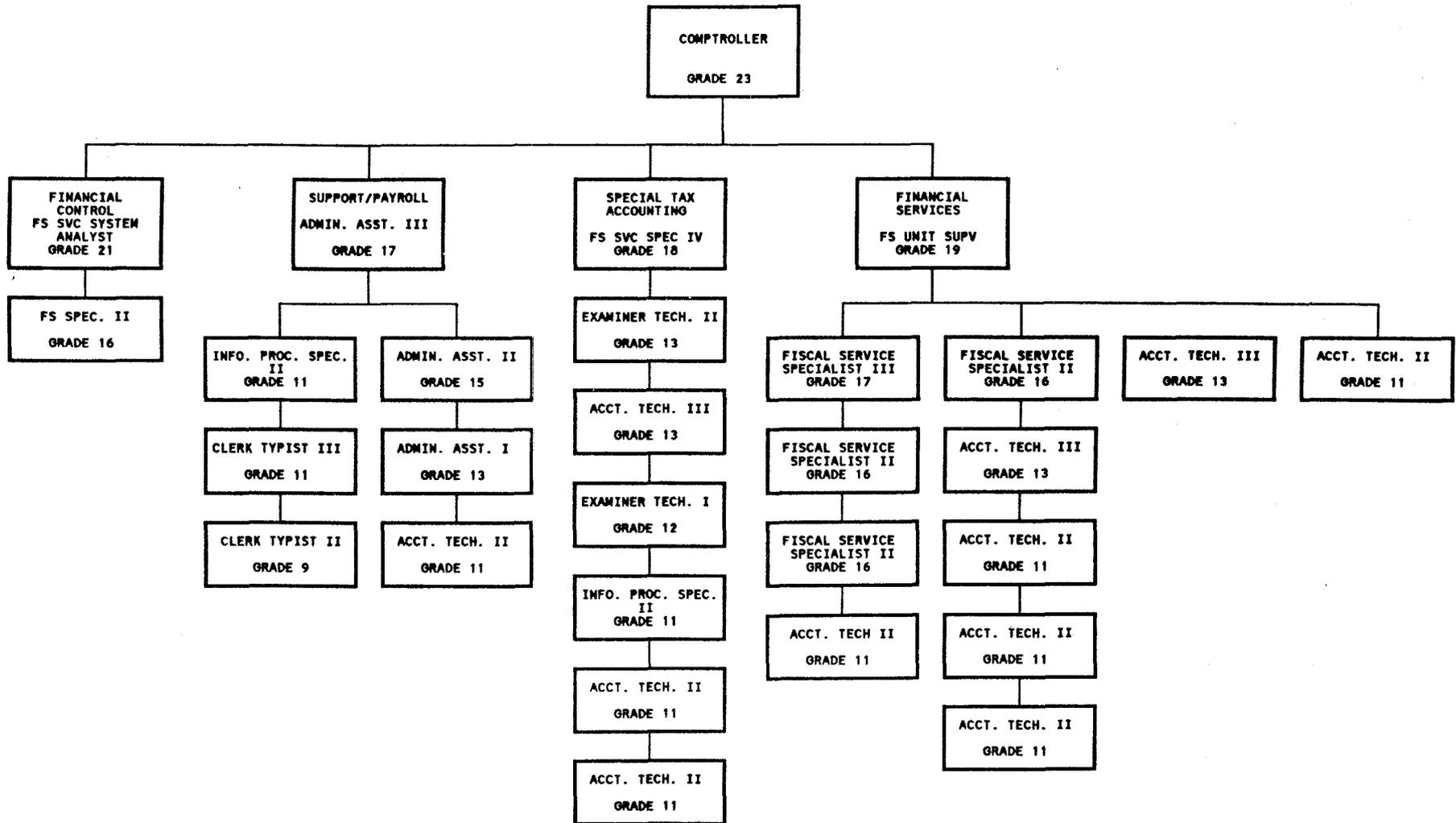
- Financial Services Unit personnel are cross-trained and can be supervised by one supervisor.
- Consolidation of revenue and expenditures functions will eliminate the need for two supervisors reporting to the Fiscal Services Unit Supervisor. The elimination of one Fiscal Services Specialist II will reduce \$30,600 in salary and ERE costs per year.
- Total Savings = \$30,600

Implementation

- Address Personnel reductions through reassignment. Coordination and approval with Personnel Division
- Develop new organizational charts
- Resolve space issues, and location
- Communicate changes within the DOR.

**PRESENT
COMPTROLLER'S OFFICE
1992 ORGANIZATIONAL STRUCTURE**

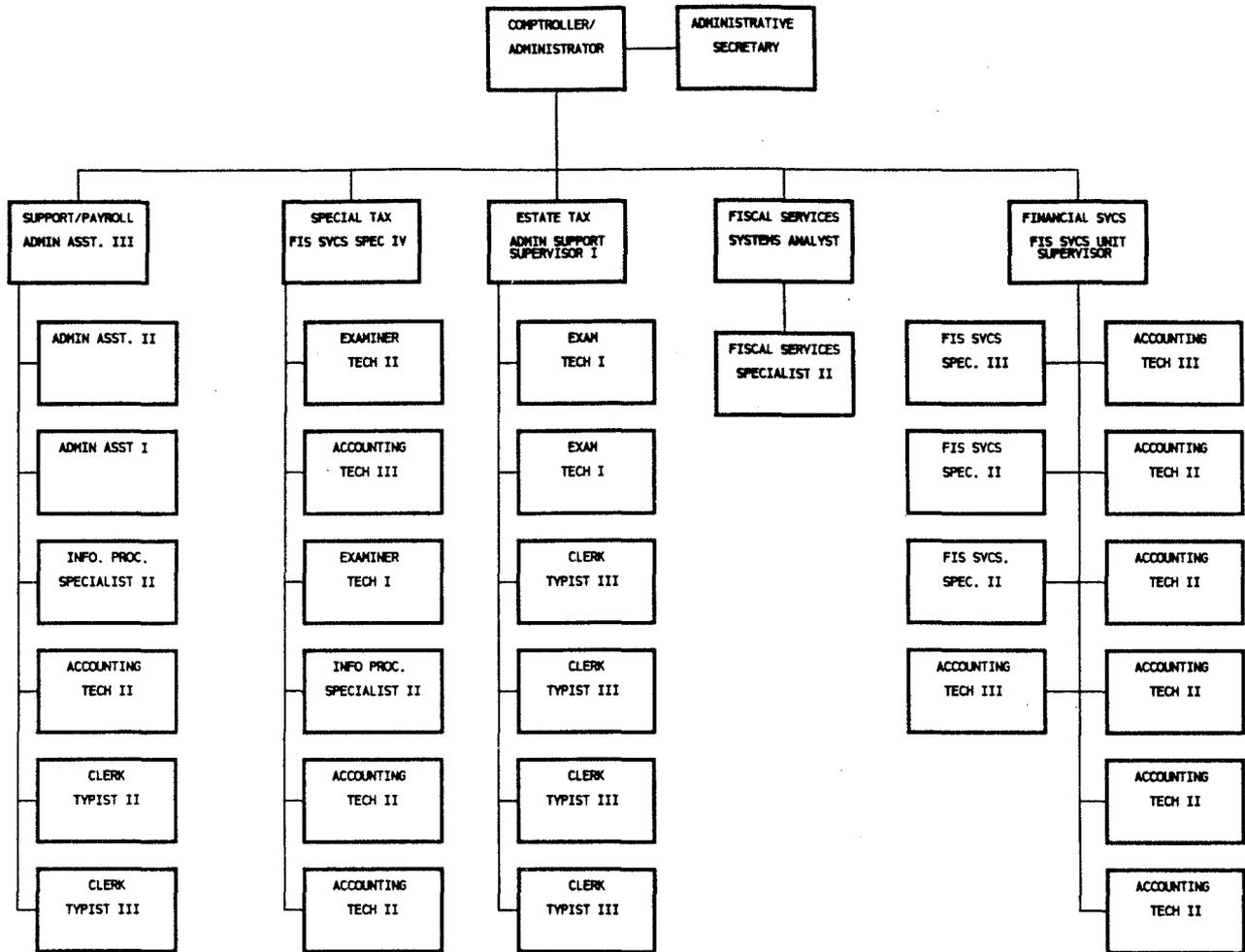
EXHIBIT 4



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DEPARTMENT OF REVENUE
 ADMINISTRATIVE SERVICES DIVISION
 OFFICE OF THE COMPTROLLER
 PROPOSED ORGANIZATIONAL STRUCTURE

EXHIBIT 5



MICROGRAPHICS - INCOME/CORPORATE FILES

Current Situation

The Records Management Section within the Administrative Services Division includes three sections: Micrographics, Income and Corporate Files, and Warehouse operations. Two of the three sections have closely aligned functions. Both are small and each has its own supervisor. In addition, one unit has employees serving as "leads." In this connection, an opportunity exists to combine the operations of both into one unit.

The Micrographics Unit is staffed by a supervisor and two leads plus five permanent line workers. The lead clerks are classified higher than the line employees, but lower than the unit supervisor. One lead supervises part time, the other lead position functions most often as a line employee. Temporary employees (from one to fifteen) are added during heavy tax times, chiefly during individual income tax return season. The unit's work consists of unstapling, straightening and otherwise preparing all documents for microfilming, operating several microfilming machines to microfilm all documents, and rebatching and restapling material for the Income and Corporate Files Section.

The Income/Corporate Files section has a supervisor and two clerk typists. The section handles copy orders of the source film (seven copies are made by private vendor); distributes film copies throughout the Agency; picks up and shreds small volumes of sensitive documents (large batches are handled by outside contractor); and serves as liaison for both the DOA Records Management Center and the Agency's warehouse for sending and retrieving needed work documents.

Both the Micrographics and Income/Corporate Files supervisor incumbents are cross-trained to fill in for each other when required.

Impact

The micrographics supervisor's work consists chiefly of caring for the actual (exposed and unexposed) film including splicing, refilming if required, and distribution. However, line employees are trained and have their work scheduled by the two leads in the unit.

Much of the Files Supervisor time is spent in disseminating filing information to agency personnel (holding meetings), filling in for the two line employees (shredding and document boxing work) and coordinating activity with the Archives Records Management Center. This supervisor also fills in for the micrographics supervisor on occasion. A minimal percentage of time appears to be spent in actual supervision.

In effect, there are four positions contributing to the supervision of seven full-time and two part-time line employees. The two sections' respective duties are necessarily closely coordinated. Even though staff requirements seasonally expand and contract, not all positions are needed for supervisory duties.

Recommendations

We recommend eliminating one of the two Administrative Support Supervisors and merging the two sections of Micrographics and Income/Corporate Files. The proposed structure, together with other section organizational changes is highlighted in Exhibit 6, Procurement and Facilities/Records Section, Proposed Organizational Structure (Administrative Services Division).

The resulting unit would have seven line employees, of which two would be leads assisting in work scheduling and monitoring, and one supervisor.

Benefits

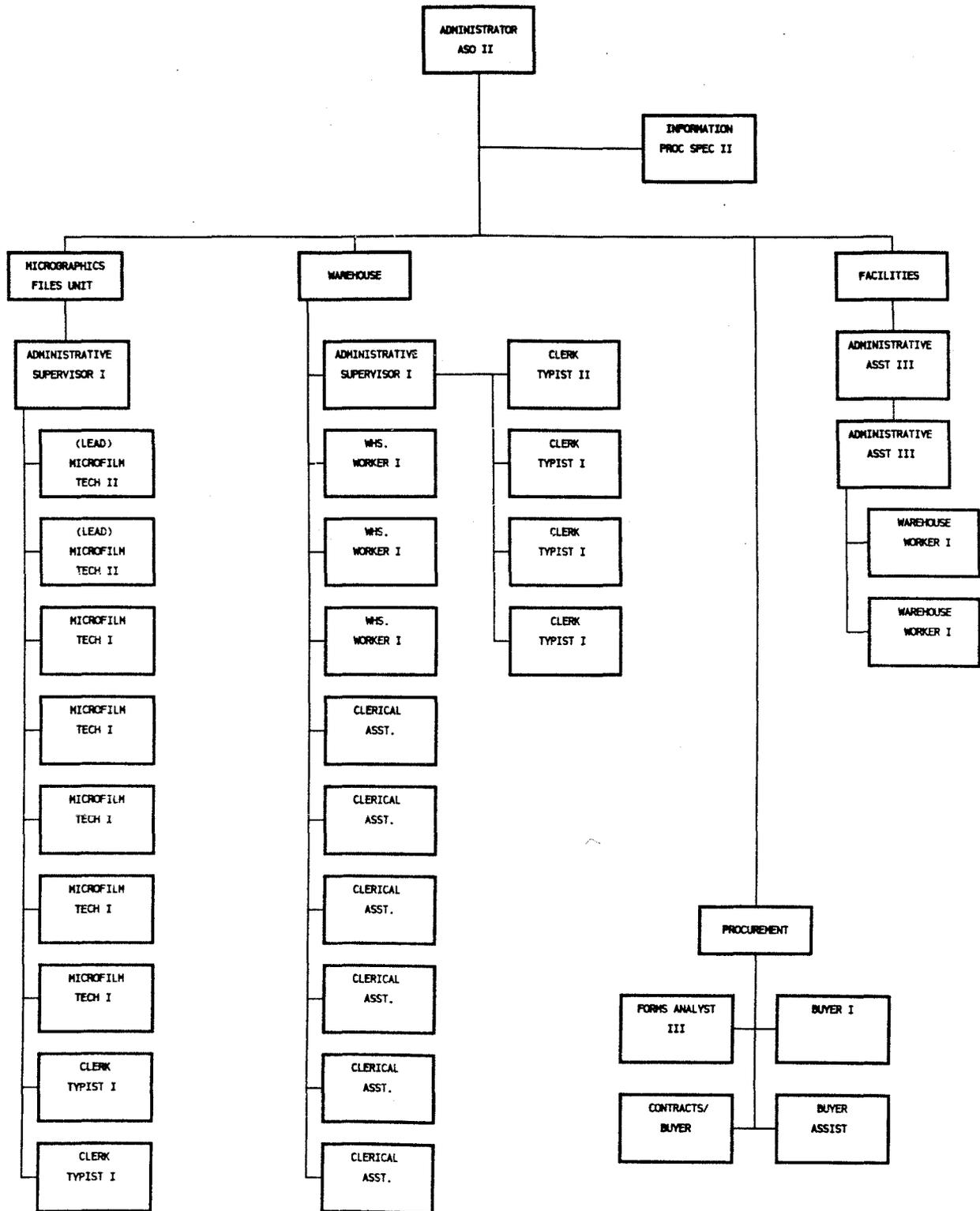
The excess supervisory duties represented by the four positions now involved in supervision will be eliminated. Closer coordination and sequencing of operations between the two operations can be realized by having a one unit-one supervisor structure. Cost savings include one Administrative Support Supervisor I (grade 14) at \$26,538 (includes ERE).

Implementation

- Communicate plan for unit consolidation to Records Management employees
- Eliminate position in accordance with Personnel Division rules.

**ADMINISTRATIVE SERVICES DIVISION
 PROCUREMENT AND FACILITIES/RECORDS SECTION
 PROPOSED ORGANIZATIONAL STRUCTURE**

EXHIBIT 6



ADDITIONAL ATTORNEY POSITION

Current Situation

The Department of Revenue's Internal Audit/Criminal Investigations unit funds one Attorney position in the Arizona Attorney General's (A.G.'s) Office through an Intergovernmental Agreement. The Attorney dedicates 100% of time available to the pursuit of criminal indictments by the Grand Jury and the prosecution of criminal tax cases. The Internal Audit/Criminal Investigations Unit currently has 54 active cases. The prosecutor in the A.G.'s Office receives tax cases referred by the Internal Audit/Criminal Investigation's Financial Investigations Auditors. The Internal Audit/Criminal Investigations Unit averages 15 referrals per year. The prosecutor averages 12 criminal indictments per year.

A backlog of seven active tax cases exists at the A.G.'s Office with an estimated tax liability of \$1.4 Million. Four active cases will be added to the backlog within the next four months. In addition, nine of the 54 active tax cases at DOR awaiting referrals have a total estimated tax liability of \$1.98 Million. The remaining 45 tax cases at DOR are on hold because the degree of tax violation is unknown or the investigation will result in civil action rather than criminal prosecution.

Impact

- One Prosecutor in the A.G.'s Office is insufficient to handle the volume of criminal tax cases generated by the Internal Audit/Criminal Investigations Unit
- There is a backlog of active tax cases awaiting prosecution
- Some active tax cases which are open have been awaiting prosecution by the A.G.'s Office for years, which results in Financial Investigation Auditors spending additional time updating tax case records.

Recommendations

We recommend the addition of one Attorney at the A.G.'s Office to handle the volume of criminal tax cases requiring prosecution.

Benefits

- The proposed addition of (1) Attorney to the A.G.'s Office will result in revenue enhancement by increasing the number of active tax cases prosecuted annually.
One attorney (Assistant A.G.) = \$55,000 including ERE

The expenditure of \$55,000 will yield a potential collection of \$1.98 Million (nine tax cases at DOR) in estimated tax liability plus \$1.4 Million (seven tax cases at the A.G.'s Office) in estimated tax liability

- An additional Attorney will enable the A.G.'s Office to adequately handle the volume of active tax cases referred for prosecution by the Internal Audit/Criminal Investigations Unit
- Voluntary compliance increases when criminal prosecutions and convictions are printed in the newspaper
- Reduces the number of backlogged active tax cases
- Increase the number of active tax cases referred to the prosecutor in the A.G.'s Office
- Reduced necessity for updating tax case records awaiting prosecution
- Total estimated revenue enhancement approximates \$1,980,000 with a potential total estimated revenue enhancement of \$3,380,000 (includes convictions on all seven tax cases currently in the A.G.'s Office with a potential total estimated revenue of \$1,400,000).

Implementation

- Communicate with the A.G.'s Office regarding intentions to fund an additional Attorney for prosecution of criminal tax cases
- Increase budget request to cover the funding of the additional position

- Obtain Position Description Questionnaire (PDQ) from Attorney General's Office and coordinate the establishment of one additional Attorney position at the A.G.'s Office
- Coordinate recruitment and special selection preference through State Personnel Division for interviewing and selection by the Attorney General's Office
- Coordinate the additional Attorney's responsibilities and duties with the other Prosecutor funded by DOR in the A.G.'s Office.

ARMORED CAR PICKUP SCHEDULE

Current Situation

At present, a cut-off time of 2:00 pm has been established for Remittance Processing to submit its last transmittal of cash/checks to the Comptroller's Office. This early cut-off is required to provide the Comptroller sufficient time to prepare the Cash Letter and accompanying deposit documents for Security Pacific -- the depository bank. Security Pacific Bank presently schedules its final armored car pick-up of the day for 3:30 pm.

In this connection, an opportunity exists to accelerate the bank deposit of payments received each day by DOR of Income Tax returns.

Impact

The Comptroller has stated that the bank does not actually require receipt of the final deposit until 6:00 pm of each day and that, if the final pickup of cash/checks could be delayed another hour, the Comptroller's Office -- working with Remittance Processing -- could significantly increase the daily deposit amount.

Recommendations

We recommend the State Treasurer's Office negotiate for a 4:30 pm pickup by Security Pacific Bank. Discussion with this Office indicates the bank is willing to comply.

After being informed of the new pick-up schedule by the State Treasurer, the Comptroller's Office should arrange with Remittance Processing for a later daily cut-off.

Benefits

The availability of these extra deposits will assist in improving "cash flow." As an example, twice yearly, a cash "crunch" is experienced when the April and May expenditures for State Aid to Schools

become due. For eight months of the year, the Treasurer is liable for \$100 million plus payments to the schools. However, in April and May, the payment amounts are doubled, resulting in \$200 million plus expenditures on the 15th day of each month. To meet these obligations, the Treasurer's Office may at times be required to issue Treasurer's Warrant Notes. The Treasurer's Office has calculated the interest due on such a short-term loan would be paid at approximately the same rate as short term tax anticipation, or revenue anticipation notes.

Savings

No savings are projected. The main benefit is the improved cash flow for the Treasurer's Office and the prevention of short-term borrowing.

Implementation activities:

- Renegotiation of armored car pickup schedule with Security Pacific Bank by the Treasurer's office.
- Change to a later cut-off time for final cash/checks delivery by Remittance Processing to the Comptroller's office.

CLERICAL SUPPORT - TAXPAYER INFORMATION & ASSISTANCE

Current Situation

Clerical assistance within the Taxpayer Information and Assistance Section is rendered through a separate clerical unit headed by an Administrative Support Supervisor. This does not allow for the review of the clerical pool within the same unit where the work originates. Quality Control of work can be strengthened by distributing the clerical employees to the work unit.

The Phoenix location of the Information and Assistance Section is organized into two units -- Business Tax and Income Tax. A separate support unit is composed of seven clerk typist positions and a supervisor. Each unit has telephone unit personnel for answering questions, and case workers for handling research on the more difficult taxpayer issues.

Two levels of clerk typist are in the support unit. The three clerk typists I positions handle primarily document pulls and microfilm copies needed for case workers' research. These employees also serve as receptionist/telephone switchboard operators for the Department. The clerk typist II positions handle the typist load for the case work units.

The current work flow process is shown in Exhibit 7, Caseworker Clerical Support, Present Work Flow Process. Handwritten work to be typed (usually correspondence) is generated by the case workers in both the Business Tax and Income Tax units. Work to be typed is assigned by the clerical supervisor. Most work is proofread by the clerical supervisor, given to the quality control unit for another quality check along with the completed case file. The quality control unit sends taxpayer record adjustments to the Comptroller's Office, if required, and then mails out correspondence.

Impact

The quality control for typewritten work does not rest with the originating caseworker or caseworker supervisor, but is located instead in the separate clerical unit. Only under exceptional cases (e.g., a requirement for some clarification) would the typist material return to the originating unit.

Documents and microfilm pulls needed to complete casework research are also conducted within the separate clerical unit, after the originating assignment has surfaced from the case worker.

Recommendations

We recommend reassigning those clerical unit employees who handle casework typing and document pulls to casework units coordinating the research and generating the typewritten work, and eliminating the clerical unit supervisor. The individuals who are involved in receptionist duties should be assigned to either of the unit supervisors or the section administrator.

Typing and other clerical work should be reviewed by the originator and unit supervisor along with the rest of the elements of the case. The caseworker supervisor will provide supervision for the entire unit, eliminating the need for the clerical unit supervisor. The proposed process is shown in Exhibit 8, Casework Clerical Support, Proposed Work Flow Process.

We also recommend investigating the feasibility of having case workers perform typing functions through automated systems, thus reducing the need for clerical staff.

Benefits

Assigning the clerical support staff to the units which originate the need for this support will establish quality control at the lowest possible level and at a point closest to the originating case research. All elements of the case, including basic research, documents reviewed, action taken, and correspondence developed will be under the control of the case work unit supervisor.

Cost savings include: elimination of the clerical unit supervisor -- Administrative Support Supervisor (grade 14, salary plus ERE) = \$26,538

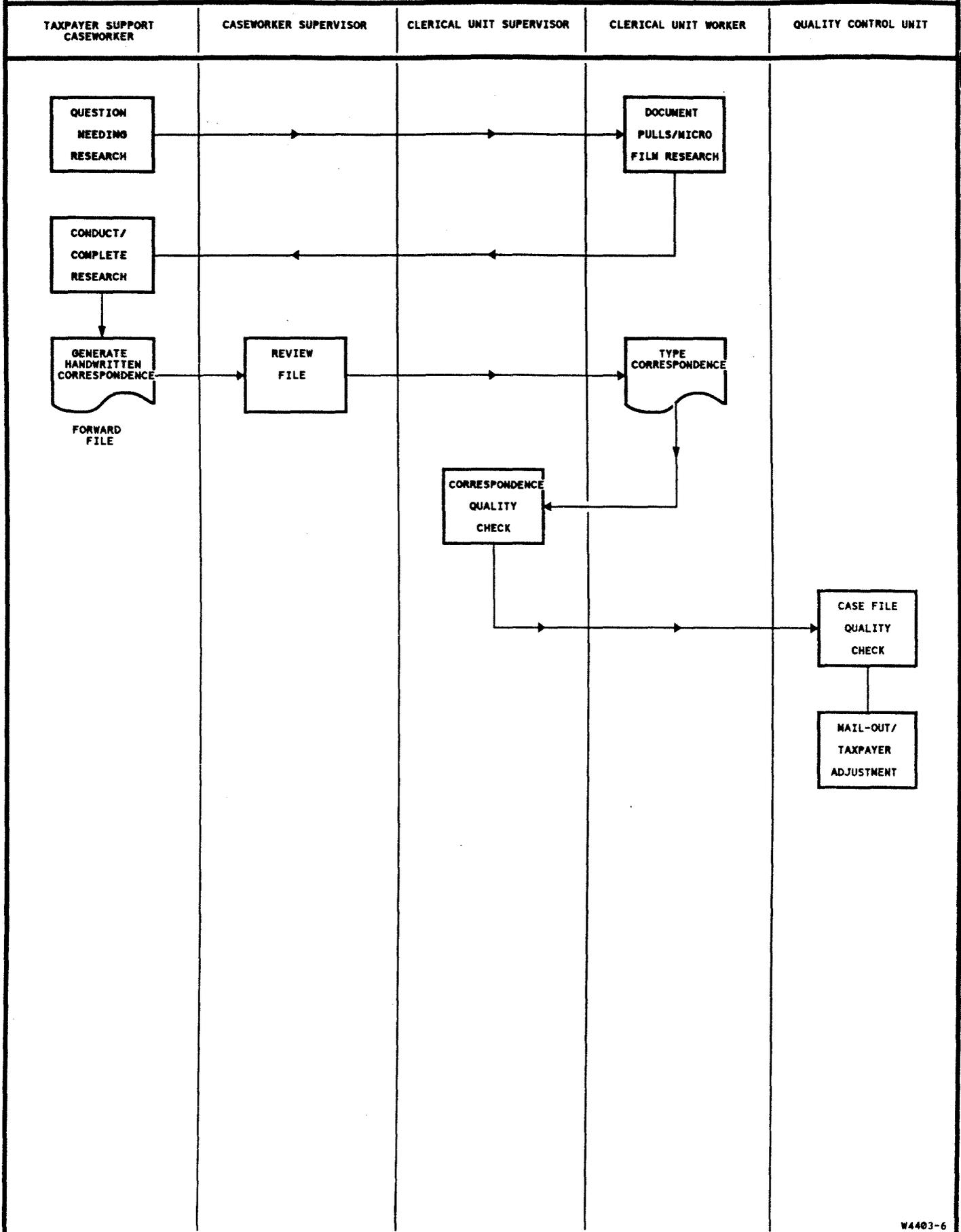
Implementation

- Communicate reassignment plans to Taxpayer Information & Assistance staff, including changes in work process.
- Implement plan in accordance with State personnel rules.

CASEWORKER CLERICAL SUPPORT

EXHIBIT 7

PRESENT WORK FLOW PROCESS

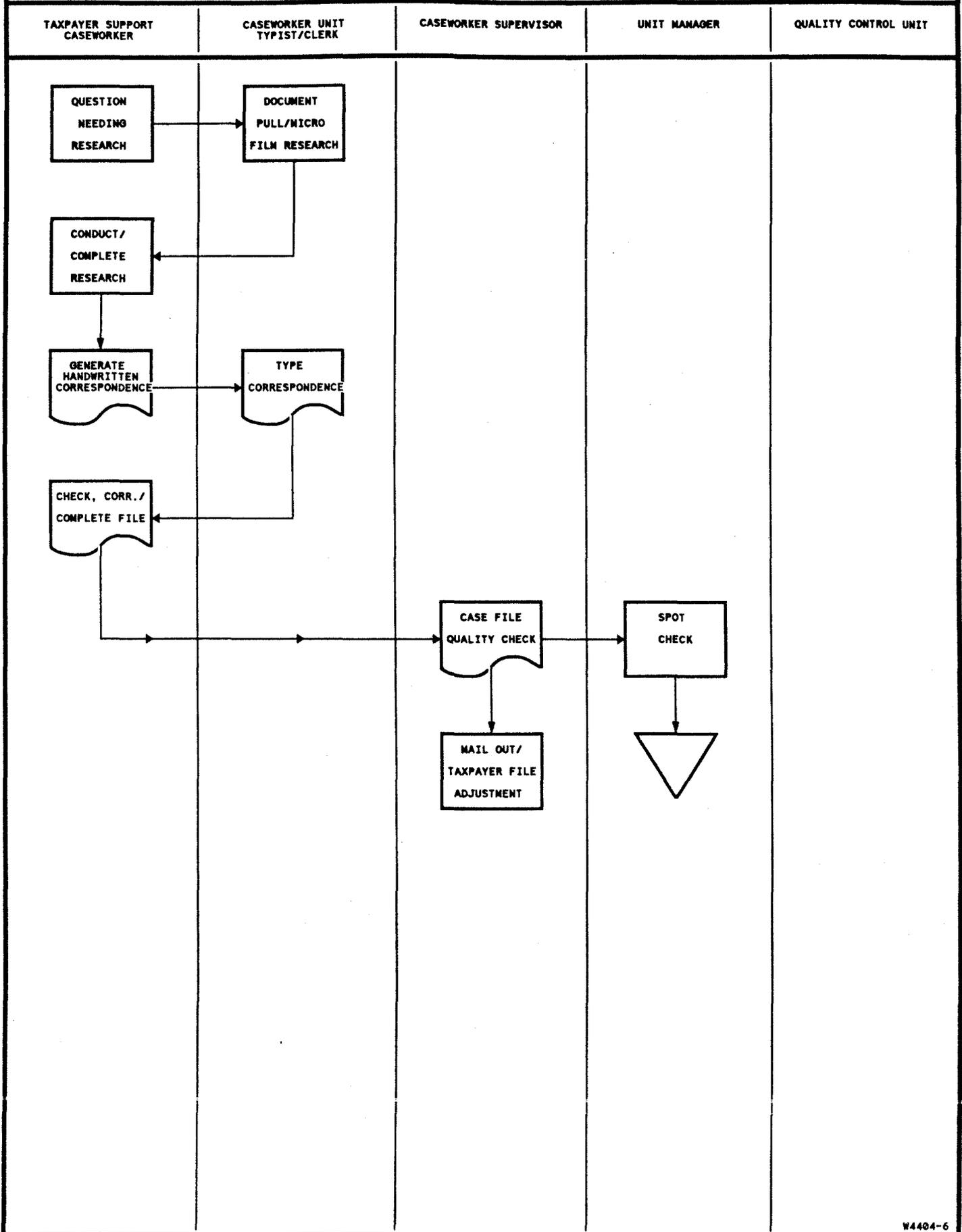


W4403-6

CASEWORKER CLERICAL SUPPORT

EXHIBIT 8

PROPOSED WORK FLOW PROCESS
(ASSUMES ELIMINATION OF SEPARATE QUALITY CONTROL UNIT)



W4404-6

REASSIGN QUALITY CONTROL FUNCTION TO LINE UNITS

Current Situation

Within the Taxpayer Information Unit Assistance Section is a two person Quality Control (Q.C.) unit reporting to the Section Manager. The quality control review of the work performed in the section could be improved by having this function conducted by the sub unit where the work originates. If necessary, the unit supervisor is also in a position to further ensure quality as required.

The work process is shown in Exhibit 9, Caseworker Quality Control, Present Process. Work in the section flows from the origin of a case file into either the business tax or income tax unit. A file is opened, and research begun, for those taxpayers having questions which require research before an answer can be forwarded.

Case workers assigned research topics utilize the clerical employee to pull hard copy documents or microfiche to determine taxpayer file or account status. When research is complete, the case file and any handwritten correspondence for the taxpayer is forwarded to the clerical unit. The clerical unit types necessary material and forwards the file with typed correspondence to the Quality Control Unit.

The Quality Control Unit is composed of a taxpayer services employee and a supervisor. The majority of the quality control work is accomplished by the taxpayer services employee. The supervisor assists in the work and supervises the single employee.

Once the case file is reviewed and determined to be in order, adjustments to taxpayer records are ordered and correspondence, if involved, is mailed out. Changes to taxpayer records (e.g., accounts receivable – the majority of issues needing research by the section) are not made by this unit. The required changes are logged and sent to the accounts receivable section (Administrative Services Division) to be adjusted by that section's employees.

Several days after the changes have been requested by the Quality Control Unit, one of the two employees contacts the Accounts Receivable Section to determine if changes have indeed been incorporated. If not, the unit follows up to determine the cause for the delay.

Impact

Quality Control of the cases researched does not rest with the originating sub unit involved in working each case. At the unit manager level, no evidence was found that any quality control actions take place. Instead, the section relies on a separate unit to administer the quality control function.

Recommendations

We recommend eliminating the quality control unit and realigning the quality control functions, now administered by the Q.C. unit, with the first level case worker supervisor and, as required, the two Business and Income Unit Managers. The revised process is shown in Exhibit 10, Caseworker Quality Control, Proposed Process.

The section has sufficient management/supervisor levels in place (Section Administrator, Unit Manager, and case worker supervisor) to accommodate both quality assurance and quality control functions.

Benefits

Assigning quality control functions to the supervision of those units which originate the case work establishes those control functions at the lowest possible level and at a point closest to where the research is actually accomplished.

With the introduction of clerical support into the work unit (see Recommendation entitled "Clerical Support-Taxpayer Information & Assistance") all elements of research can be quality checked by the existing supervisory chain instead of a separate employee unit. In effect, quality control is established at the level of work accountability - the supervisor and manager of the work process.

Cost savings include: elimination of the quality control unit with the following positions and costs (includes salary and ERE):

One Taxpayer Services Technician III (Grade 14)	\$26,538
One Taxpayer Services Technician II (Grade 12)	<u>23,214</u>
Total	<u>\$49,752</u>

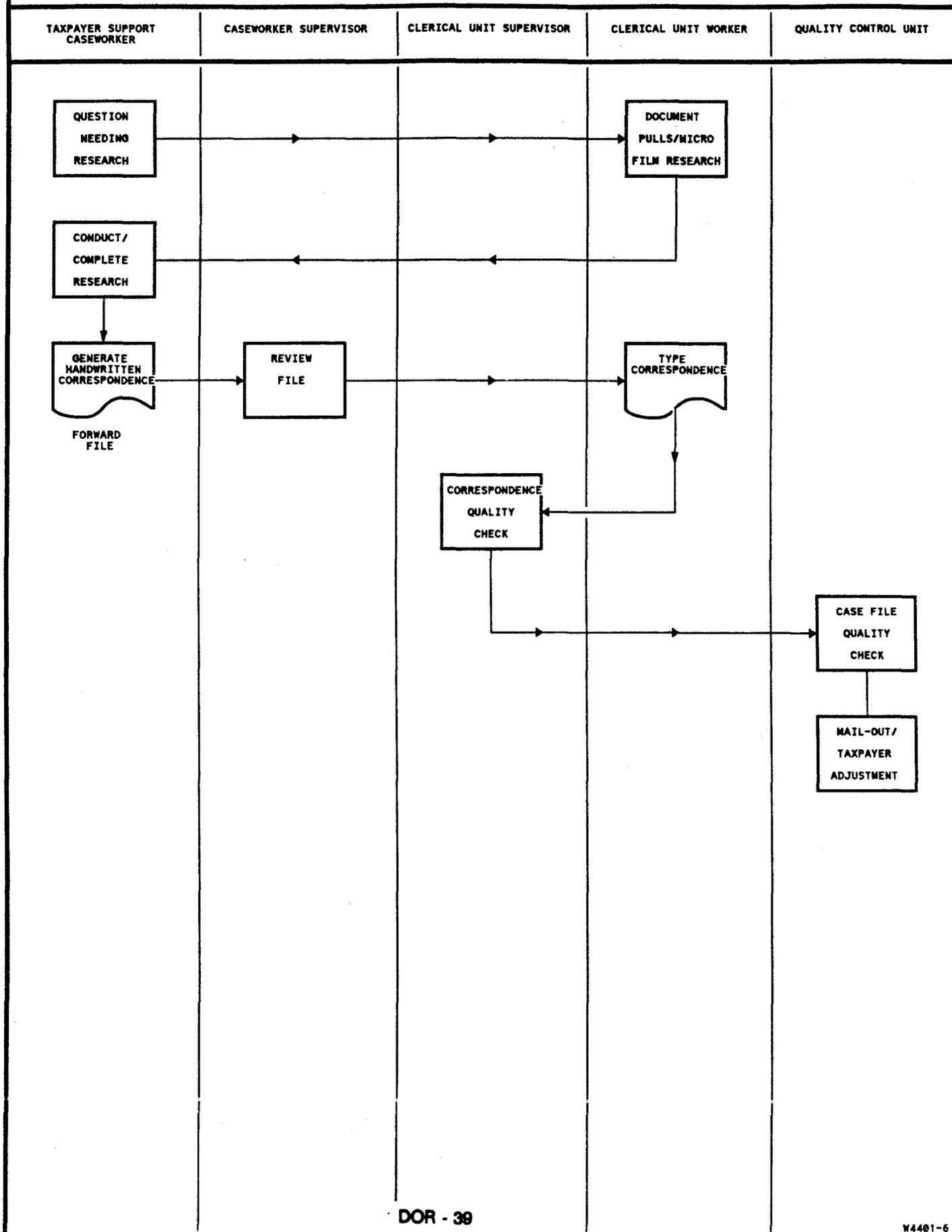
Implementation

- Communicate function reassignment plans with staff affected. Include specific changes in process
- Implement plan in accordance with State Personnel Rules.

CASEWORKER QUALITY CONTROL

EXHIBIT 9

PRESENT PROCESS

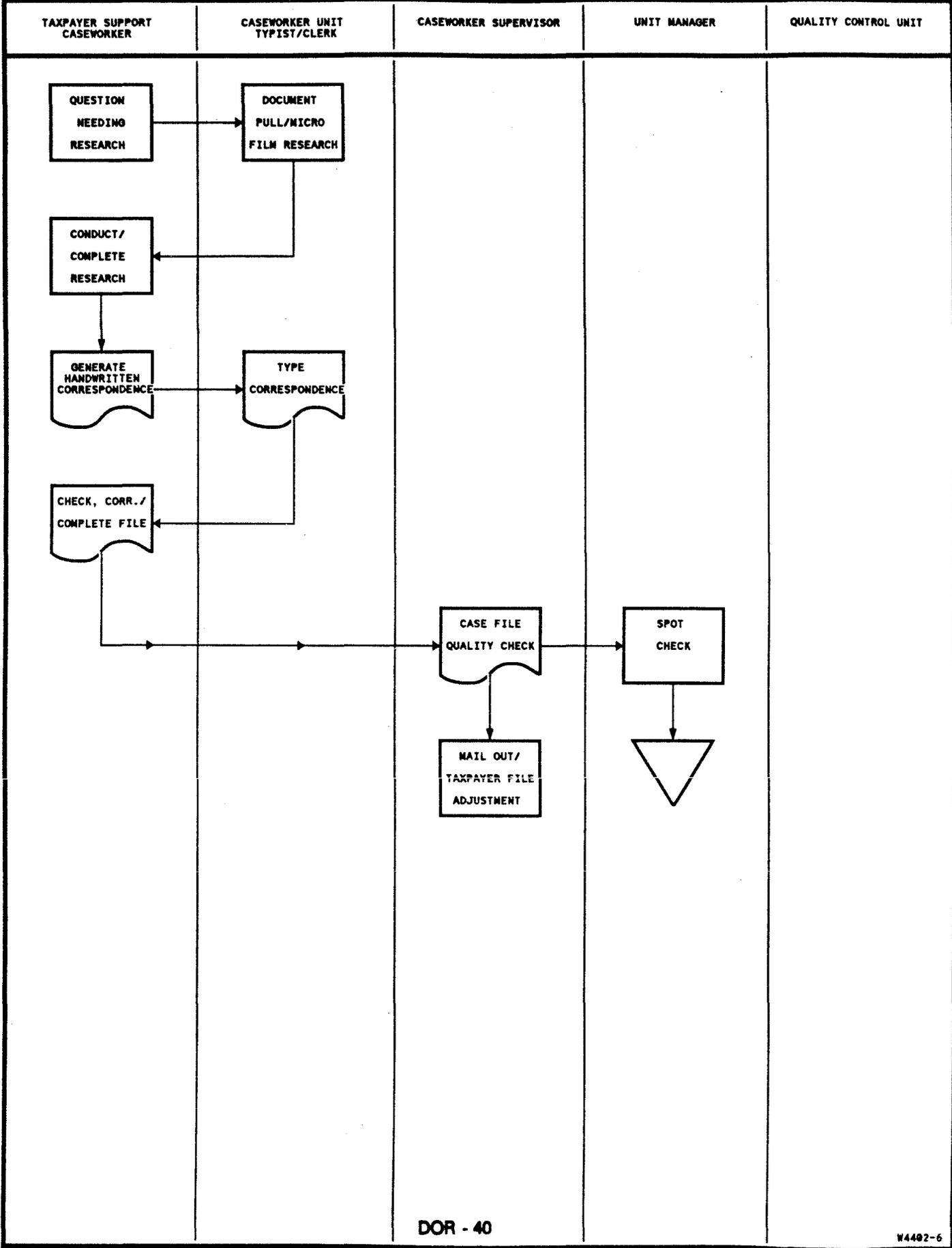


CASEWORKER QUALITY CONTROL

EXHIBIT 10

PROPOSED PROCESS

(ASSUMES ELIMINATION OF SEPARATE QUALITY CONTROL UNIT)



SALES TAX LICENSE ENFORCEMENT

Current Situation

The Department of Revenue enforces the Transaction Privilege Tax License required of business organizations by identifying, through a variety of research and investigative methods, those businesses operating without a tax license. Although large numbers of businesses have been identified through current and recent past efforts, Agency staff feel that maximum enforcement efforts have not been reached. In this connection, thirteen employees are currently involved in tax license compliance efforts.

Impact

The strengthening of the enforcement efforts have taken place under the PIER Program (Programs for Increased Enforcement Revenues). This was a program introduced by the legislature in FY 1990-91 and again in 1991-92 through which 297 new positions were established targeted specifically for revenue enhancement activities throughout the Department. Some of the PIER positions have been placed in license compliance activities.

Initial efforts in tax license compliance were highly successful, yielding close to one million dollars annually per license enforcement employee. Continuing efforts are still yielding significantly increased collections through these enforcement actions; most recent data shows that generated amounts equate to more than \$600,000 per year per employee. Even though compliance efforts are currently bringing in smaller amounts of dollars because high priority (large size) accounts were the initial businesses brought into compliance, the Department feels that added effort will continue to bring in far more dollars than costs.

Recommendations

We recommend the addition of three enforcement employees to further strengthen the sales tax license compliance efforts now underway. These employees could be distributed in both Phoenix and Tucson to join the compliance efforts already underway.

Benefits

It is estimated that the addition of each active enforcement employee will generate an average of \$200,000 per year in added sales tax license and sales tax remittances. Sixty percent of this amount would accrue as added State revenue (\$120,000); the remainder is added revenue generated for local governmental units through local government sales tax licenses and remittances.

Revenue enhancement to the State is \$360,000. The cost of personnel to implement is \$74,520, including ERE.

There will be a one-time cost for furniture and equipment of \$25,500 and recurring costs of \$5,000 for travel and other operating expenses.

Total annual net enhancement is \$280,480.

Implementation

- Establish positions through the legislative process or through reassignment of other state government positions
- Recruit employees and assign work

CORPORATE AUDIT RESTRUCTURE

Current Situation

The Corporate Audit Section could be better organized in a way to maximize the use of its work force to efficiently manage its work flow. The Corporate Audit Section has four Field Audit units which are responsible for the on-site auditing of corporations. There is also one Office Audit Unit which, in addition to providing all support and clerical services to the entire section, is responsible for conducting a variety of audits using IRS and internal reports. The Office Audit unit does all of its work "in-house" and does not conduct field audits.

The present organizational structure of the Corporate Audit Section reflects a limited number of clerical staff to support the Section's work (see Exhibit 11, Division of Tax Enforcement, Corporation Audit Section -- Present Organizational Structure). It also reflects a very broad span of control for the Office Audit unit supervisor with a mix of clerical positions, Exam Techs and Revenue Auditors. The present organization has a preponderance of auditing functions directed in the field audit activities.

Previous additions to staff have resulted in increased revenue generations. In this connection, additional opportunity exists to increase revenue generations. However, based on the following considerations, Agency management has no plans in the current budget cycle to specifically increase staffing:

- 1) Numerous new positions have been added in the last few years
- 2) Agency management wants to use current staffing more efficiently.

Impact

Under the present organizational configuration with its shortage of clerical support and preponderance of positions dedicated to field audit activities, the Corporate Audit Section has been forced to use its Exam Techs to do data input and other clerical functions rather than doing simple office audits, and research. Office Audit functions are restricted to existing staff, thus limiting the unit's overall audit activity. Office audits generate more revenue per auditor at less cost for salary and travel than field audits. Finally, the span of control for the Office Audit Supervisor is currently 17 positions, and includes a mixture of support functions as well as office audit functions.

Recommendations

We recommend the following improvements:

- Create a new unit to handle support functions for the Corporate Audit section. This will relieve the Audit Supervisor from having to supervise support staff and consolidate support functions in a single unit.
- Establish an Administrative Support Supervisor I position (grade 14) to supervise this proposed unit. This position is required to address the unit's support activities.
- Establish two additional Clerk Typist II (grade 9) positions to augment existing clerical support. This will allow the Exam Techs to be relieved of clerical responsibilities and free them for research and tax audit work.
- Transfer all examiner techs and existing and proposed clerical support staff to the Administrative Support unit. This concentrates support functions in one central location under one supervisor.
- Establish two additional Revenue Auditor III positions (grade 18) and locate them in the Office Audit unit. This enhances the office audit unit's capability to increase collection.
- Downgrade three Revenue Field Auditor II positions (grade 19) to create the two Revenue Auditor III positions and to create some of the funding for the establishment of the Administrative Support Supervisor and the Clerk Typist II positions. The remaining position and funding can come from positions eliminated in other recommendations:

(See Exhibit 12, Division of Tax Enforcement – Corporate Audit Section, Proposed Organizational Structure for details.)

Benefits

The following benefits will be realized:

- Downgrading two of the three Revenue Field Auditor II positions (grade 19's) to Revenue Auditor III positions (grade 18) will yield an annual savings of \$5,988. This is calculated on the basis of midpoint salary for a grade 18 at \$29,203 per annum versus the midpoint salary of a grade 19 at \$31,647 per annum, plus a .225 Employee Related Expense (ERE). This is \$2,994 per position times the two positions
- Downgrading the third Revenue Field Auditor II position (grade 19) to an Administrative Support Supervisor I position (grade 14) will yield a savings of \$12,229 per annum. This is calculated on the basis of a mid-point salary for an Administrative Support Supervisor position (grade 14) at \$21,664 versus the salary for a Revenue Field Auditor II (grade 19) at \$31,647 per annum, plus a .225 ERE
- Downgrading the three Revenue Field Auditor III positions (grade 19) will generate \$30,000 in savings. Each position currently expends \$10,000 per year on in-state and out-of-state travel
- These savings and some savings from other recommendations generated can be used to establish the two proposed Clerk Typist II position (grade 9) at a cost of \$39,352, including ERE
- Restructuring of the Section for Corporate Audit improves efficiency, maximizes the use of its staff and generates savings
- Establishing two more clerical positions and an Administrative Support Supervisor position allows the three Exam Techs to begin to conduct simple office audits instead of the clerical functions they are now performing. The anticipated revenue to be generated through the redeployment of the Exam Techs is projected to be \$1,500,000 per year

- Reclassifying the Revenue Field Auditor II's to the Office Audit position of Revenue Auditor III will yield the following changes in revenues:
 - The average Revenue Field Auditor II generates an average of \$350,000 in collections per year. Downgrading three positions results in a projected loss of revenue on the field audit side of \$1,050,000 per year
 - The average Office Auditor (Revenue Auditor III) will generate an average of \$750,000 per year in collections. Adding two new Office Auditors will result in projected revenues of \$1,500,000 per year
 - The net gain in revenues from these two sections is \$450,000 per year
- Total recurring savings in staff and travel for this recommendation in State dollars is \$8,865 per year
- Total projected revenue for this recommendation is \$1,950,000 (\$1,500,000 from the Exam Techs and \$450,000 from the two Office Auditors.

Grand Total = \$1,958,865

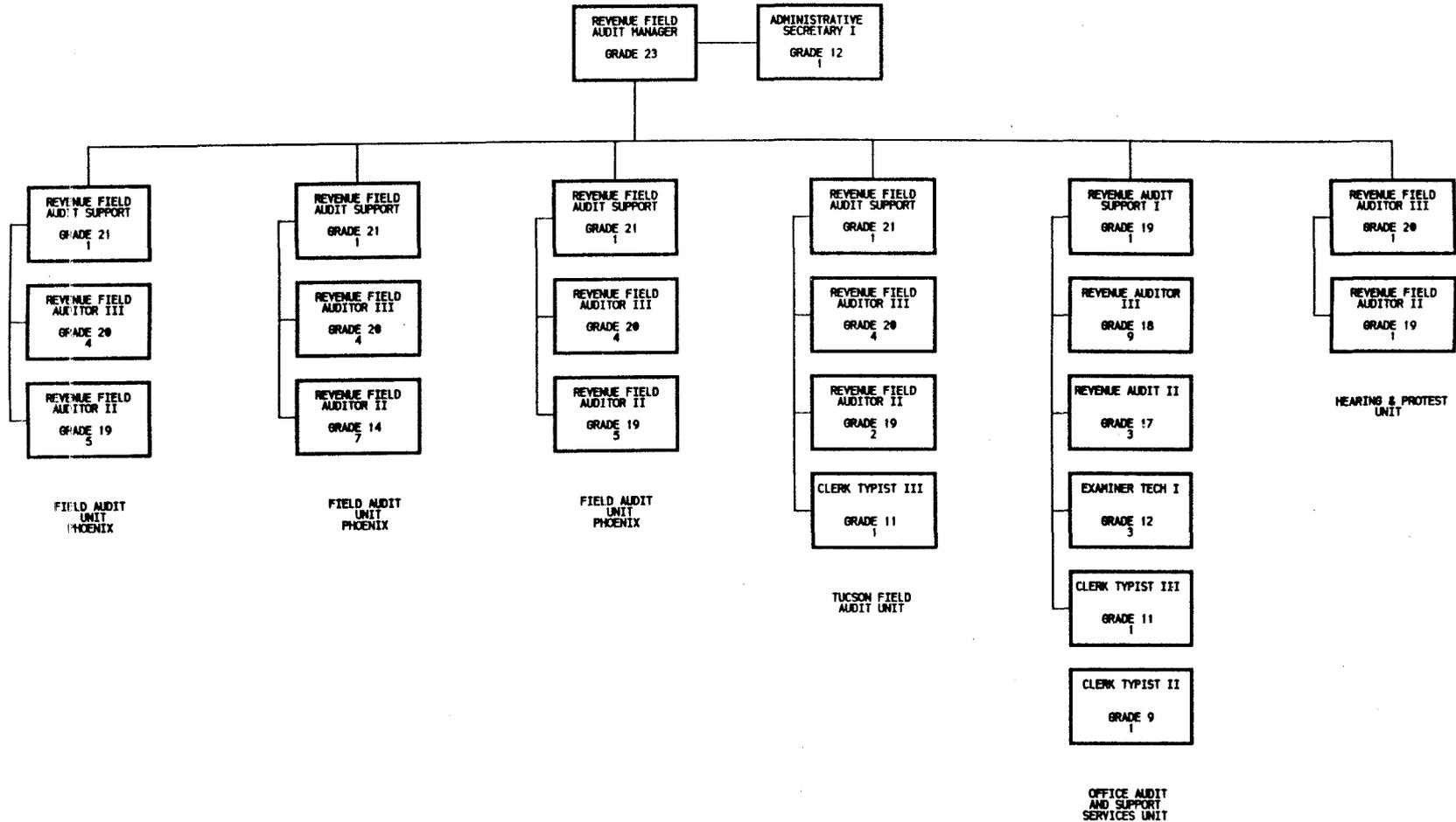
(There will be a one-time cost for five networked personal computers with software - estimated to be \$25,000).

Implementation

- Develop reorganization proposal and submit along with required paperwork to agency management for approval and routing to Personnel
- Agency budget request should reflect added clerical position or a position within DOR should be reallocated to Corporate Audit
- Transition Exam Tech to doing simple audits. This should include training, etc.
- Develop plan for expanded Office Audit activities based on known workload.

DEPARTMENT OF REVENUE
 DIVISION OF TAX ENFORCEMENT
 CORPORATE AUDIT SECTION
 PRESENT ORGANIZATIONAL STRUCTURE

EXHIBIT 11

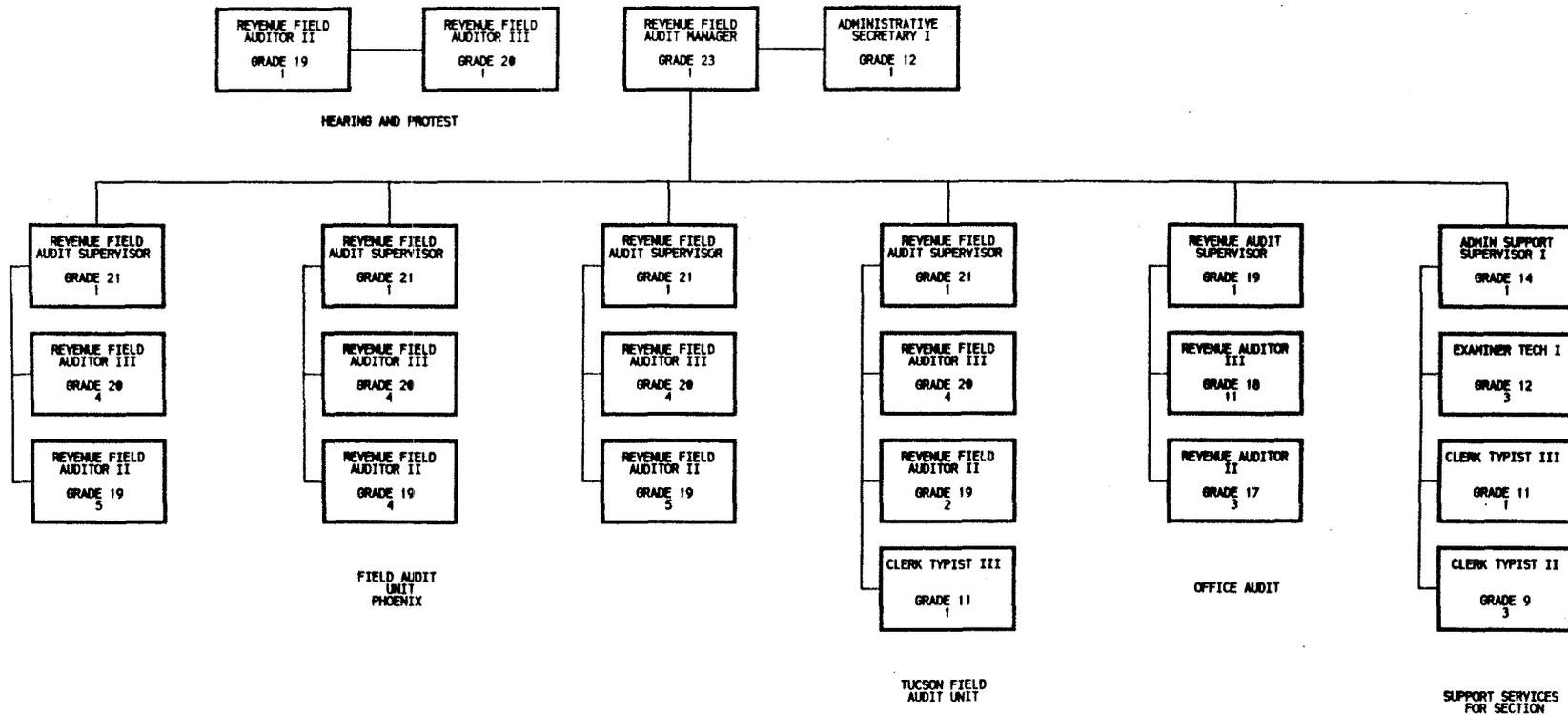


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DEPARTMENT OF REVENUE
 DIVISION OF TAX ENFORCEMENT
 CORPORATE AUDIT SECTION
 PROPOSED ORGANIZATIONAL STRUCTURE

EXHIBIT 12

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- * PROPOSED ESTABLISHMENT OF ADMINISTRATIVE SUPPORT SUPPORT I POSITION (14) TO SUPERVISE SUPPORT SERVICE
- ** PROPOSED ESTABLISHMENT OF NEW CLERK TYPIST II (GRADE 9) TO PROVIDE NEEDED CLERICAL SUPPORT
- *** (3) REVENUE FIELD AUDITOR II POSITION'S (GRADE 19) REMOVED (AS VACANT) TO BE RECLASSIFIED TO (2) REVENUE AUDITOR III (GRADE 18) (1) CLERK TYPIST II (GRADE 9) AND (1) ADMINISTRATIVE SUPPORT SUPERVISOR I (GRADE 19)
- **** PROPOSED ESTABLISHMENT OF (2) REVENUE AUDITOR III (GRADE 18) TO INCREASE OFFICE AUDIT ACTIVITIES

WITHHOLDING TAX TRANSFER

Current Situation

Employers in Arizona are required to interact with two State agencies in the collection and audit of withholding and unemployment insurance taxes.

The Department of Revenue (DOR) is responsible for tax collection and audit activities for employer withholding tax and the Department of Economic Security's (DES) is responsible for the Unemployment Insurance (UI) Program. Both Agencies relate with the same employers in the collection and audit activities for unemployment insurance tax. There is a 98% match of employers between the two tax areas.

Both DOR and DES/UI employ staff to process tax payments and to perform audits of Arizona employers. Each agency maintains separate time frames, procedures, and forms, for tax submittal, and conducts audits using their own methodology and schedules. It should be noted that there are two Field Auditors assigned to the withholding unit at DOR and 45 Auditors in the UI Tax Program.

Impact

There are two major state agencies interacting with the same employers, each utilizing different staff, collection and audit methodologies, forms, and scheduling.

This situation results in duplication of effort, specifically in the audit area, but more importantly is a significant burden for employers. Employers are required to follow two different sets of guidelines, to schedule different dates for audits, and to utilize different forms in order to comply with the two State agencies' policies and procedures.

There is also a disparity in the level of audit coverage between the two agencies. With only two auditors in DOR assigned to its withholding audit program, the number of audits conducted is far fewer than the DES/UI Tax side which employs 45 auditors. This obviously increases the possibility that non-payment and other violations such as late payment and underreporting will go undetected by DOR Field Auditors. This translates to lost revenue and non-compliance with Arizona tax code.

Recommendations

We recommend the following improvements:

- Transfer the withholding tax responsibilities of DOR to the DES/UI Program along with all staff currently specifically identified to the withholding area, except audit staff
- Perform an analysis to determine the number of FTE positions working within the withholding tax area, specifically in the document's processing, data entry, data processing, Comptroller, and collections area, and transfer positions associated with the number of FTE positions to DES
- Standardize policies, procedures, and forms
- Reassign each of the two Revenue Field Auditors currently employed to conduct withholding audits back to the Sales and the Corporate Audit Section respectively.

Benefits

- The auditor reassigned to Sales Audit will generate \$420,000 in collections annually
- The auditor reassigned to Corporate Audit will generate \$350,000 in collections annually
- Total revenue to be realized by redeploying these two staff is \$770,000 annually
- Eliminates major overlapping functions and creates one tax entity for employers to deal with in the UI and Withholding Tax areas
- Significantly reduces workload and procedural complexity for employers
- Will provide for much broader coverage in the withholding tax auditing of employers
- UI staff indicate there are significant savings to be realized but the actual dollar figures are not available (no historical data)

- There will need to be shared cost (per Federal law) of the 45 UI auditors since they cannot do State work using Federal funds
- There will be start-up costs, including EDP and planning for which State dollars will need to be made available. These costs are difficult to estimate at this time
- The shared costs and start-up costs should be more than offset by the revenues generated through comprehensive audits.

Implementation

- Legislation needs to be amended to facilitate transfer
- Set-up a transition task-force comprised of key staff from both agencies to develop a transition plan (general funds to cover salaries of federally funded task force members will need to be appropriated)
 - Analyze EDP requirements and budget
 - Analyze personnel needs, including existing dedicated staff and FTE's at DOR (previously identified)
 - Identify other issues pertinent to transfer and make recommendations
- Develop shared cost methodology per federal law, for audit staff and budget accordingly
- Develop budget for other up-front costs identified
- Implement transfer over an 18 month transition period
- Start-up and shared staffing costs are to be determined in implementation phase. However, these costs should more than be offset by the revenues generated by increased and enhanced audit activities.

QUALITY CONTROL FUNCTIONS - AD'S OFFICE

Current Situation:

There are two Quality Control (QC) positions (Revenue Field Auditor III's - grade 19) organizationally housed in the Assistant Director's office. However, we find that they are not engaged in significant QC activities.

These two positions are theoretically supposed to be used for randomly reviewing audits in the individual, withholding, sales and corporate audit areas. The two positions report directly to the AD's Executive Staff Assistant. In discussing their activities, one of the individuals commented that they do few, if any, random reviews of case audits.

Impact

As one of these two positions is not actively engaged in QC reviews and as updated Supervisory review functions should allow for increased QC, one of the two positions is lost to production audit functions. In effect, the Department and the State loses the revenue this audit position can generate.

Recommendations

We recommend one of the quality control positions be transferred back to the sales tax audit section and assigned a caseload. We further recommend the remaining quality control position concentrate on quality control work in the Individual Audit Section, per the Auditor General's report.

Benefits

- The sales tax audit position will generate approximately \$420,000 per year in actual collections.

Implementation

- Transfer the Revenue Field Auditor position back to the area identified
- Assign caseload.

INDIVIDUAL INCOME TAX AUDIT

Current Situation

The Individual Income Tax Audit Section is responsible for the auditing of individual income tax and employer withholding taxes.

To ensure consistency and accuracy in the performance of audits, the Individual Income Tax Audit Section has reassigned a Revenue Auditor III in each of its seven units located in Phoenix and Tempe to review all audit findings. This was done because of the broad spans of control managed by the Revenue Audit Unit Supervisor I positions in each location. In this connection the Revenue Audit Unit Supervisors do not have adequate time to review audits themselves and typically review a case only if an informal review of findings is requested by the taxpayer.

Impact

The large spans of control do not permit the Revenue Audit Unit Supervisors to do the audit reviews which should be an integral part of their duties (see Exhibit 13, Individual Income Tax Audit Section, Present Organizational Structure, and Exhibits 14-17 for Unit Organizational Structure).

This situation requires that they assign a Revenue Auditor III to do new reviews. Since they are doing audit reviews almost full-time they are not available for audit production work which is the Revenue Auditor III's primary responsibility.

Recommendations

We recommend the following actions to improve spans of control and workload distribution.

- Reclassify five of the Revenue Auditor III (grade level 18) positions to Revenue Audit Unit Supervisor I's (grade level 19) to create four additional audit units. In this connection, we recommend the following specific actions:
 - Allocate two of these units to the Phoenix office
 - Allocate two of these units to the Tempe office

- Abolish a Clerk Typist II (grade level 9) to create funding for the reclassification of this position which does correspondence is earmarked for elimination from the Administrative Support Unit. A new letter package is being implemented on the computer system which will reduce this position's workload)
- Restructure the existing and new units to equalize spans of control (see Exhibit 18, Individual Income tax Audit Section – Proposed Organizational Structure, and Exhibits 19-22 for Unit Organizational Structure).
- Reallocate the remaining two Revenue Auditor III positions to do actual audit work
- Assign audit reviews to unit supervisors

Benefits

- The two Revenue Auditor III positions which are reallocated to full-time audit activities will each generate \$353,000 in collections annually for a total of \$706,000 in new revenue
- The abolishment of a Clerk Typist II (grade level 9) position will create \$16,062 salary plus \$3,614 ERE (.225) for total available funds of \$19,676 to effect reclassification
 - The cost of reclassification will be \$14,965 (the difference between grade 19 and grade 18 at the mid-range salary level plus .225 ERE)
 - Salary savings of \$4,711
- Provides for the proper span of control to facilitate the assumption of audit reviews by supervisors.

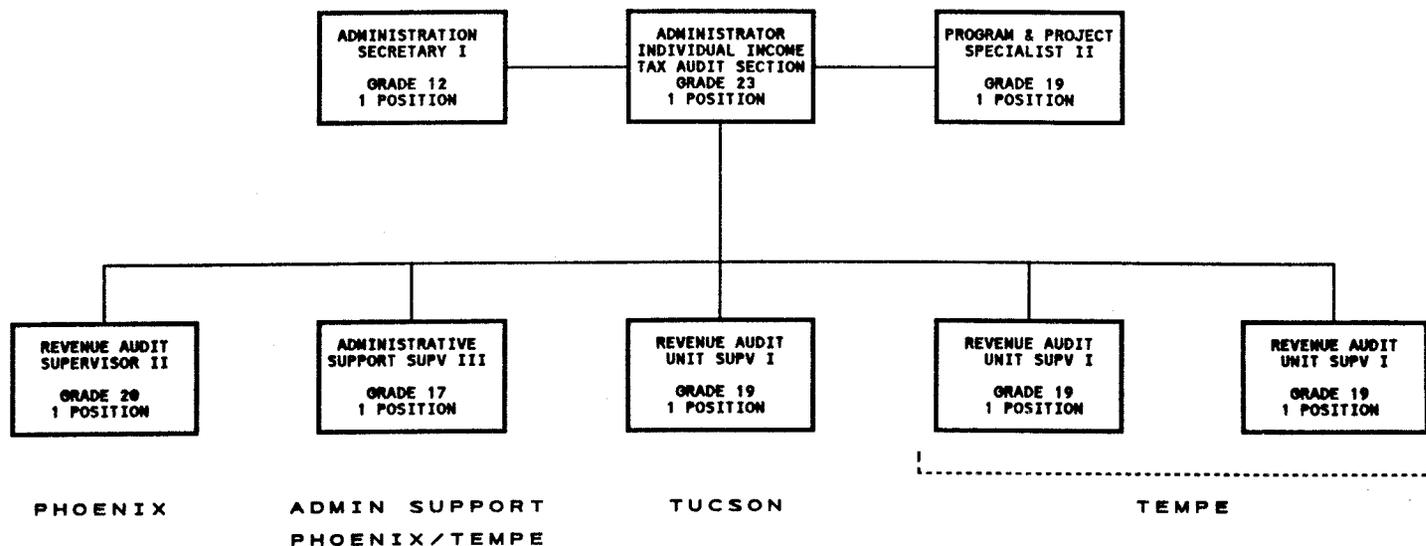
Implementation

- Abolish clerical position to create funds for reclassifying Auditor III position
- Create five additional Revenue Audit Unit Supervisors from five of the seven Revenue Auditor III positions currently engaged in full-time review activities

- Fill new positions and restructure units per Exhibits 18-22, Proposed Organizational Structures
- Restructure the Unit Supervisors positions to include review functions
- Reassign the remaining (2) Revenue Auditor III positions to full-time audit activities
- A thorough analysis of the clerical pool (Administrative Services) needs to be conducted to determine if it can be realigned to address work in a more efficient manner. The change to a new letter package system also mandates a need for review
- An analysis of the Tucson office audit and clerical functions needs to be conducted for possible restructuring consistent with the Phoenix and Tucson office alignments. There may be some increased costs associated with changes, if implemented
- Purchase networked personal computers for newly created supervisor positions. Estimated one-time cost of \$25,000.

The withholding unit is not reflected in the proposed organizational chart since it was recommended that the withholding tax activities be transferred to DES (see Withholding Tax Transfer for further information).

DEPARTMENT OF REVENUE
INDIVIDUAL INCOME TAX AUDIT SECTION
PRESENT ORGANIZATIONAL STRUCTURE



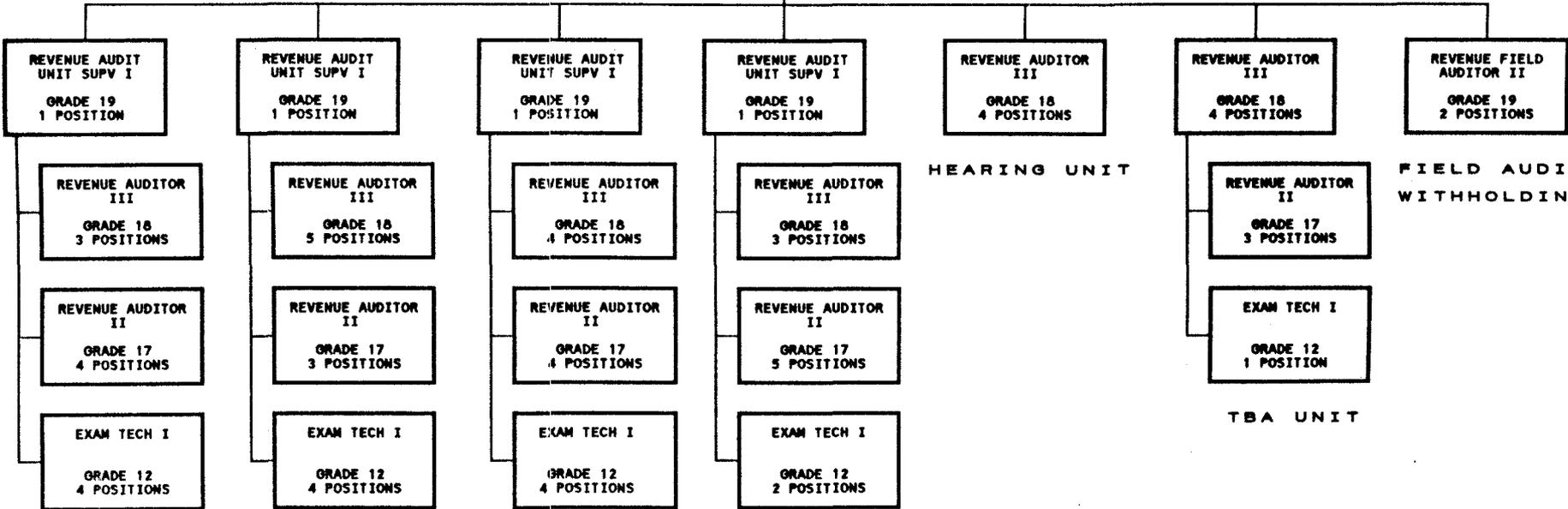
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DEPARTMENT OF REVENUE
INDIVIDUAL INCOME TAX AUDIT SECTION
PRESENT ORGANIZATIONAL STRUCTURE

PHOENIX

ADMINISTRATOR
INDIV. INCOME TAX
AUDIT SECTION
GRADE 23
1 POSITION

REVENUE AUDIT
UNIT SUPV II
GRADE 20
1 POSITION

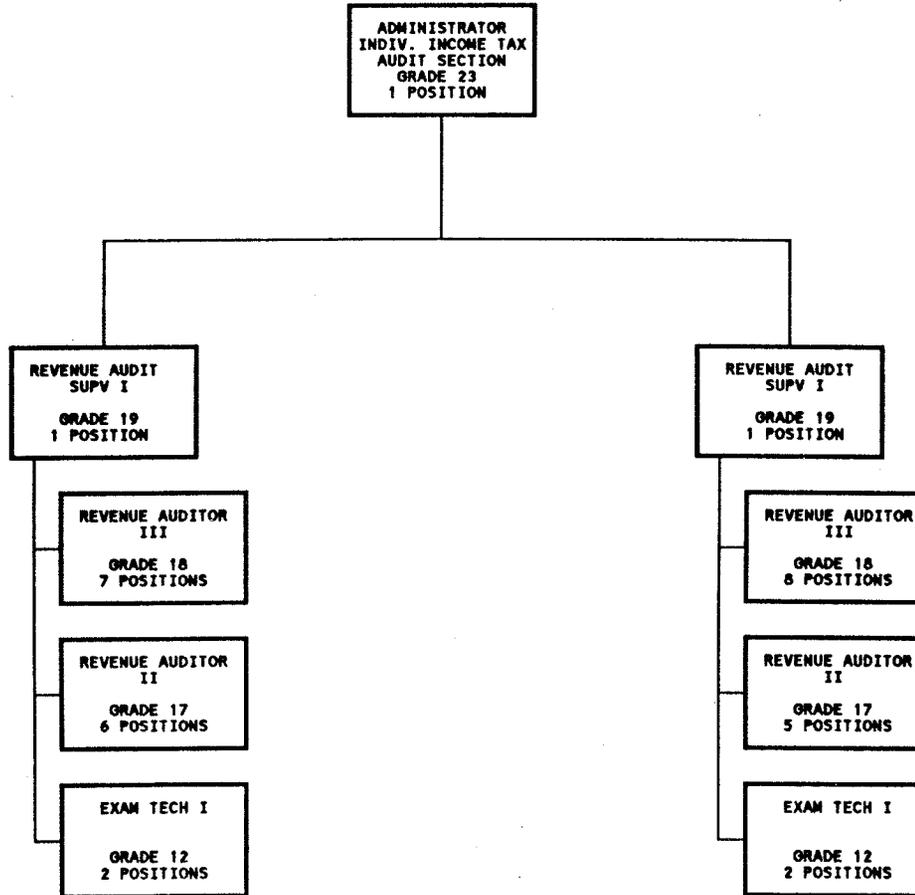


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----- AUDIT FUNCTIONS -----

DEPARTMENT OF REVENUE
INDIVIDUAL INCOME TAX AUDIT SECTION
PRESENT ORGANIZATIONAL STRUCTURE

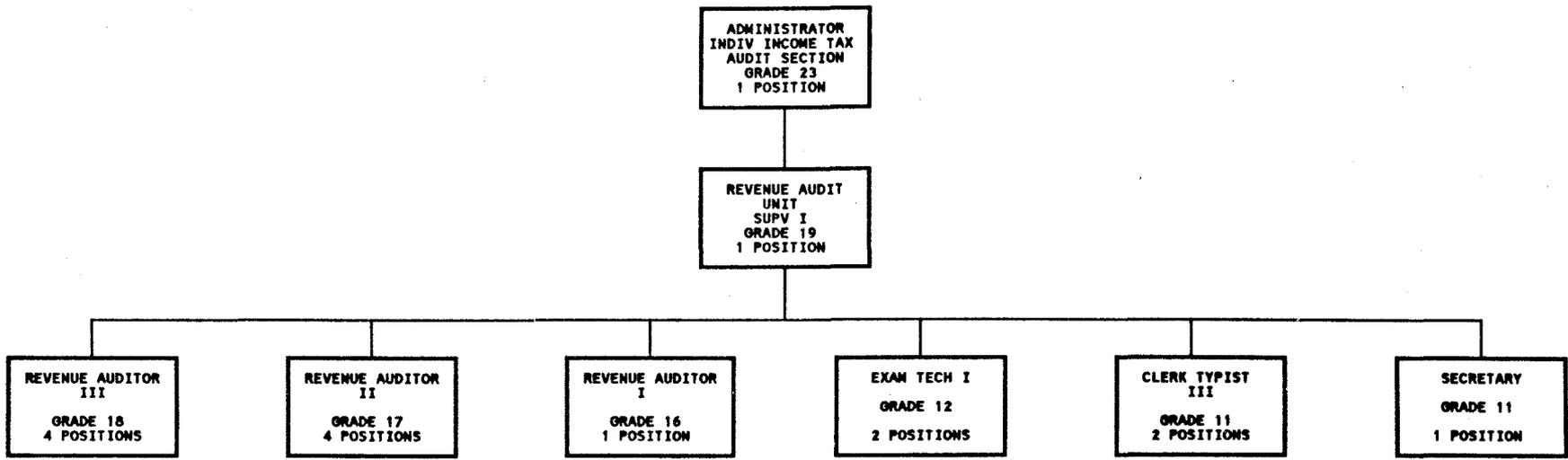
TEMPE



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DEPARTMENT OF REVENUE
INDIVIDUAL INCOME TAX AUDIT SECTION
PRESENT INCOME TAX SECTION

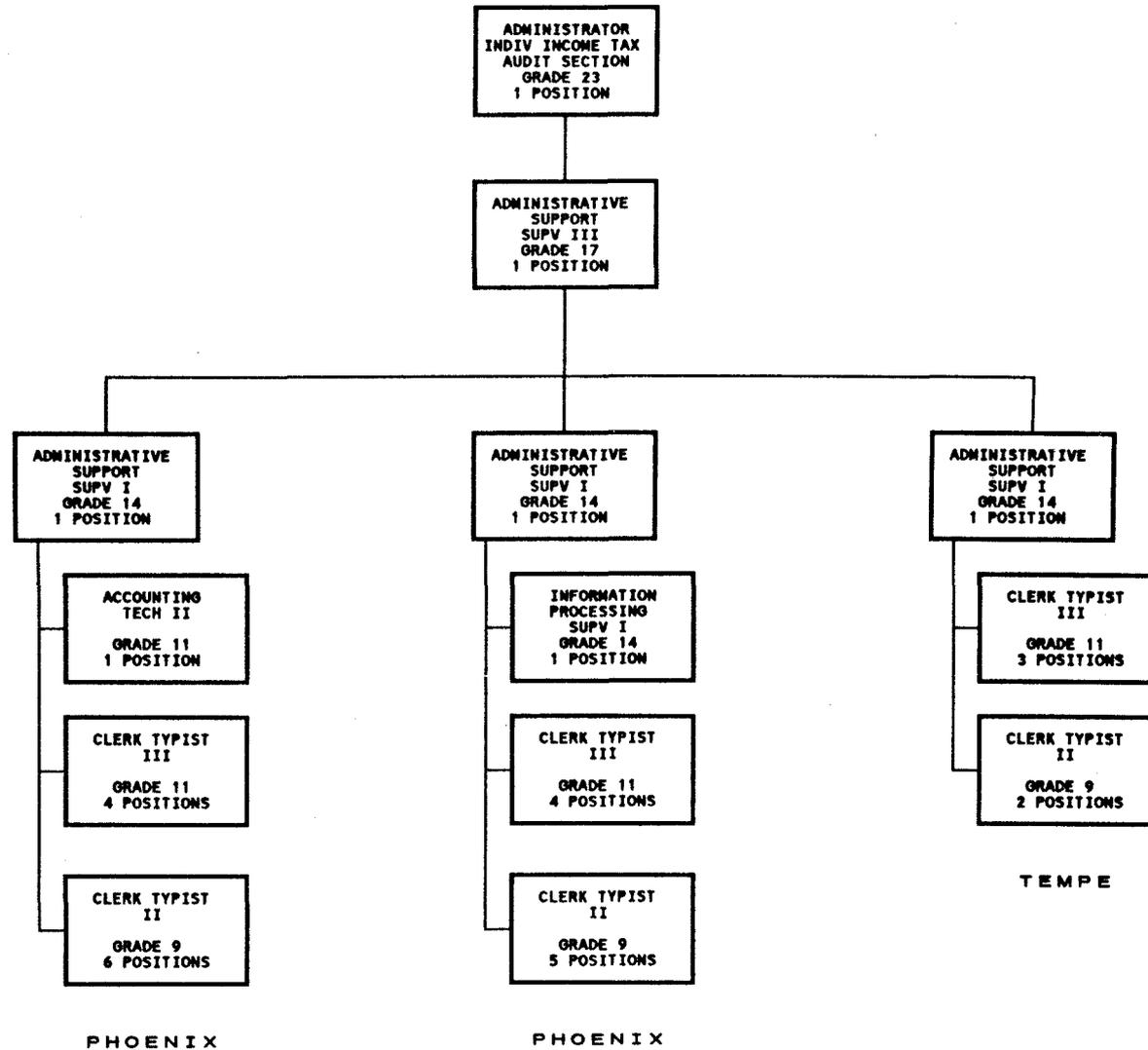
TUCSON



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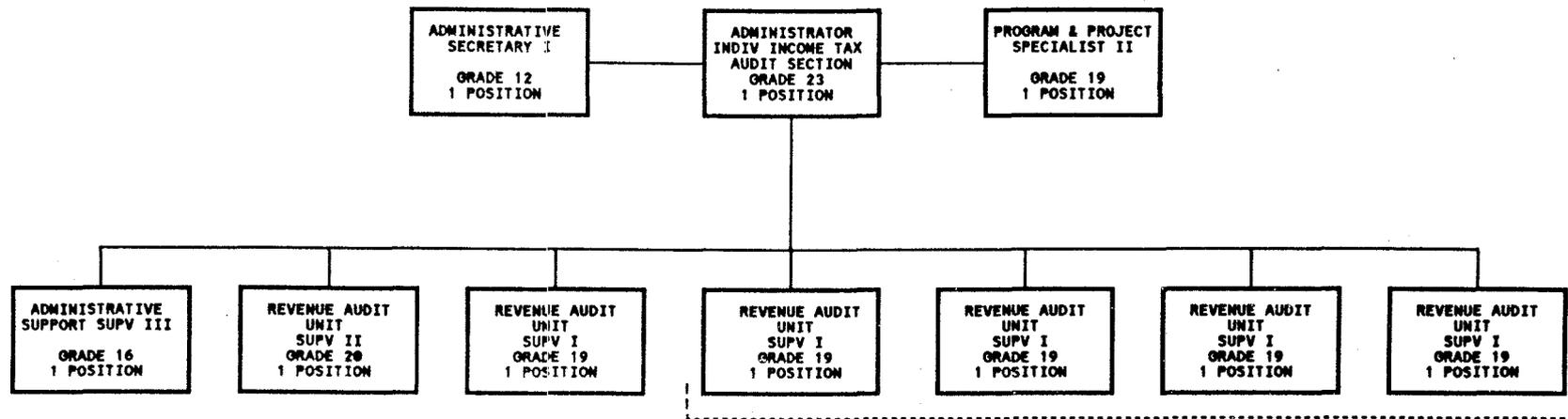
DEPARTMENT OF REVENUE
INDIVIDUAL INCOME TAX AUDIT SECTION
PRESENT ORGANIZATIONAL SECTION

ADMINISTRATIVE SUPPORT



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DEPARTMENT OF REVENUE
 INDIVIDUAL INCOME TAX AUDIT SECTION
 PROPOSED ORGANIZATIONAL STRUCTURE



DOR - 02

ADMIN SUPPORT
 PHOENIX/TEMPE

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PHOENIX

(PAGE 2 OF 5)

TUCSON

(PAGE 4 OF 5)

TEMPE

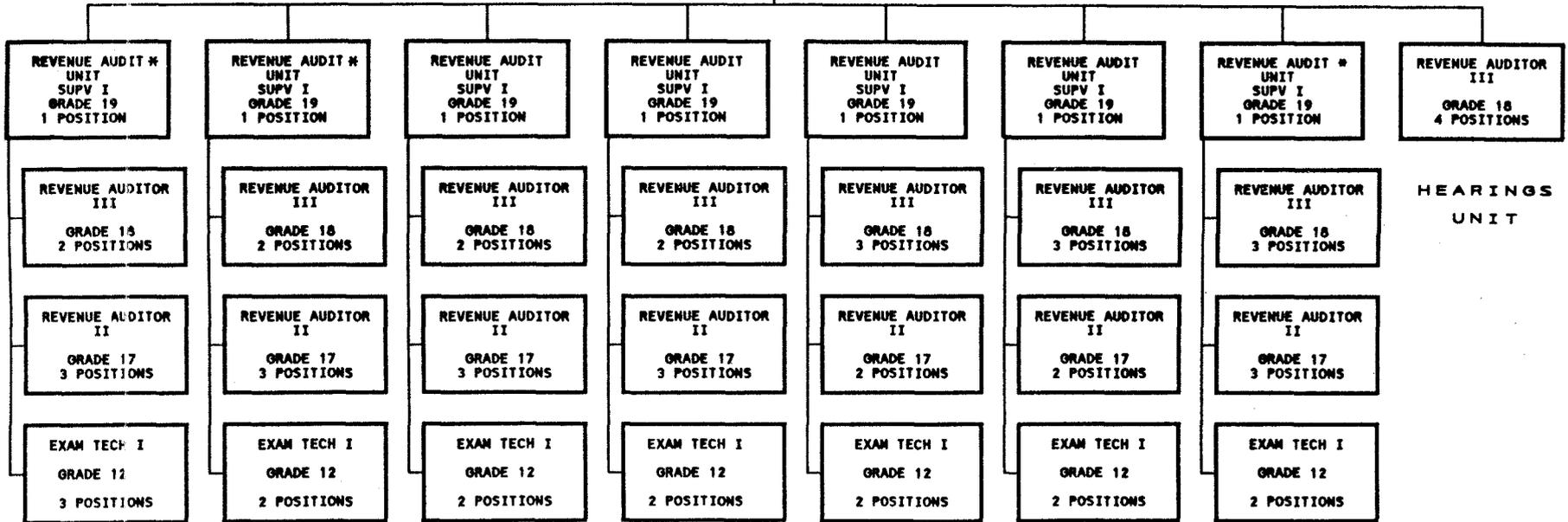
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DEPARTMENT OF REVENUE
INDIVIDUAL INCOME TAX AUDIT SECTION
PROPOSED ORGANIZATIONAL STRUCTURE

PHOENIX

ADMINISTRATOR
INDIV INCOME TAX
AUDIT SECTION
GRADE 23
1 POSITION

REVENUE AUDIT
UNIT
SUPV II
GRADE 20
1 POSITION



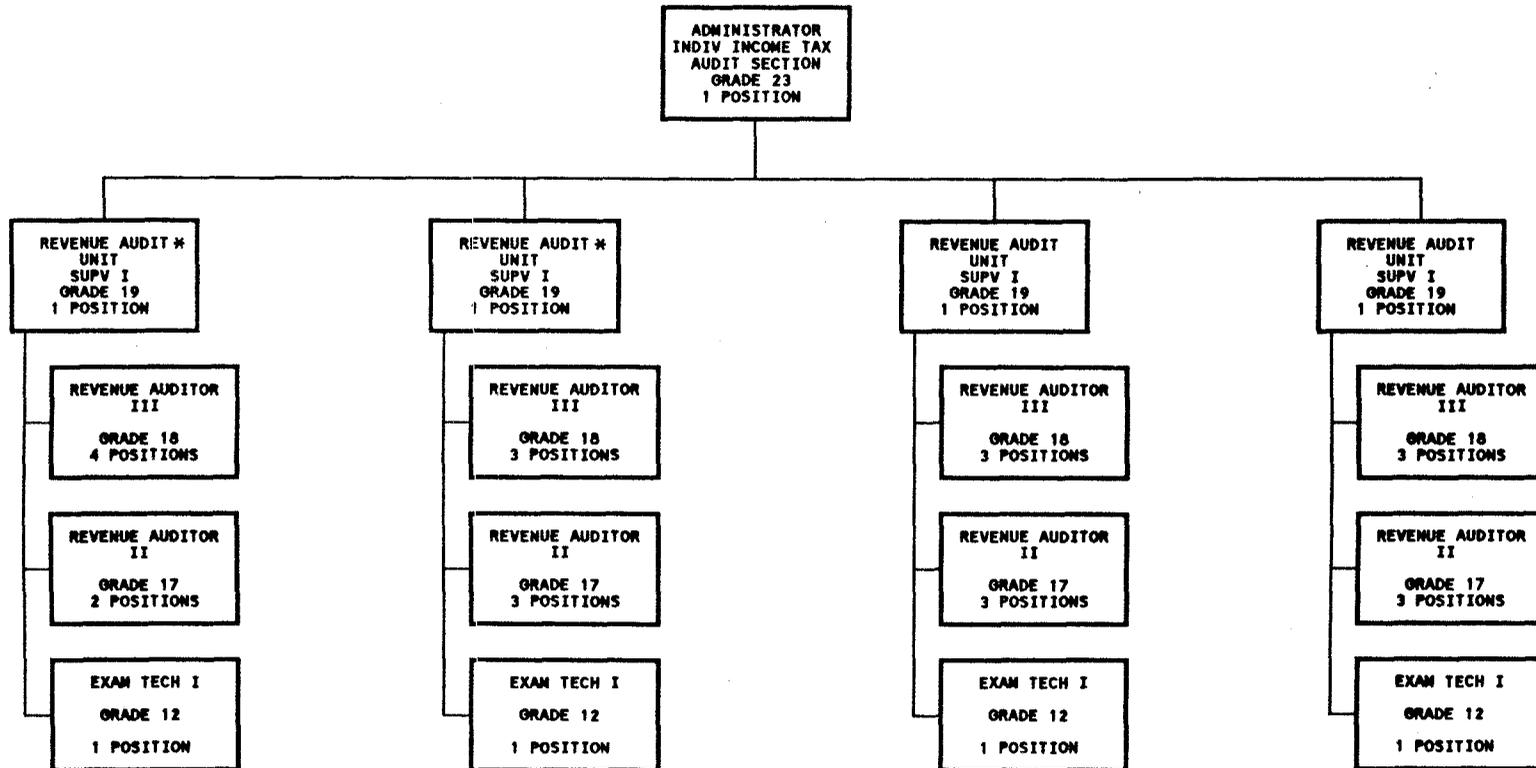
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INDIVIDUAL AUDIT INDIVIDUAL AUDIT INDIVIDUAL AUDIT INDIVIDUAL AUDIT INDIVIDUAL AUDIT INDIVIDUAL AUDIT TBA UNIT HEARINGS UNIT

*NEW UNITS

DEPARTMENT OF REVENUE
INDIVIDUAL INCOME TAX AUDIT SECTION
PROPOSED ORGANIZATIONAL STRUCTURE

TEMPE

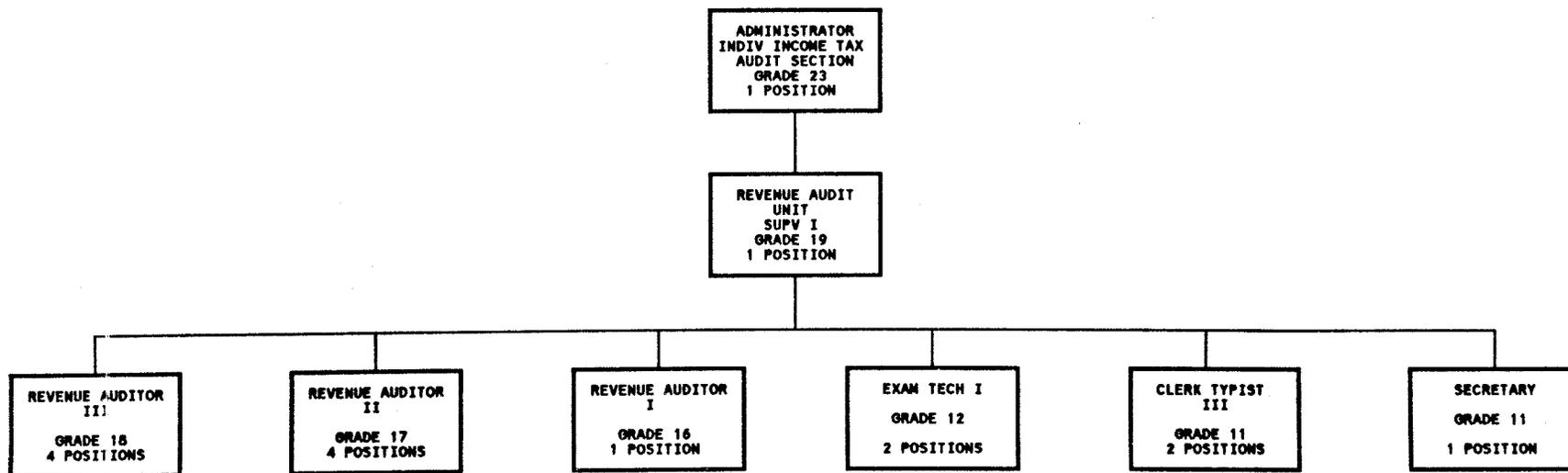


*NEW UNITS

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DEPARTMENT OF REVENUE
INDIVIDUAL INCOME TAX AUDIT SECTION
PROPOSED INCOME TAX SECTION

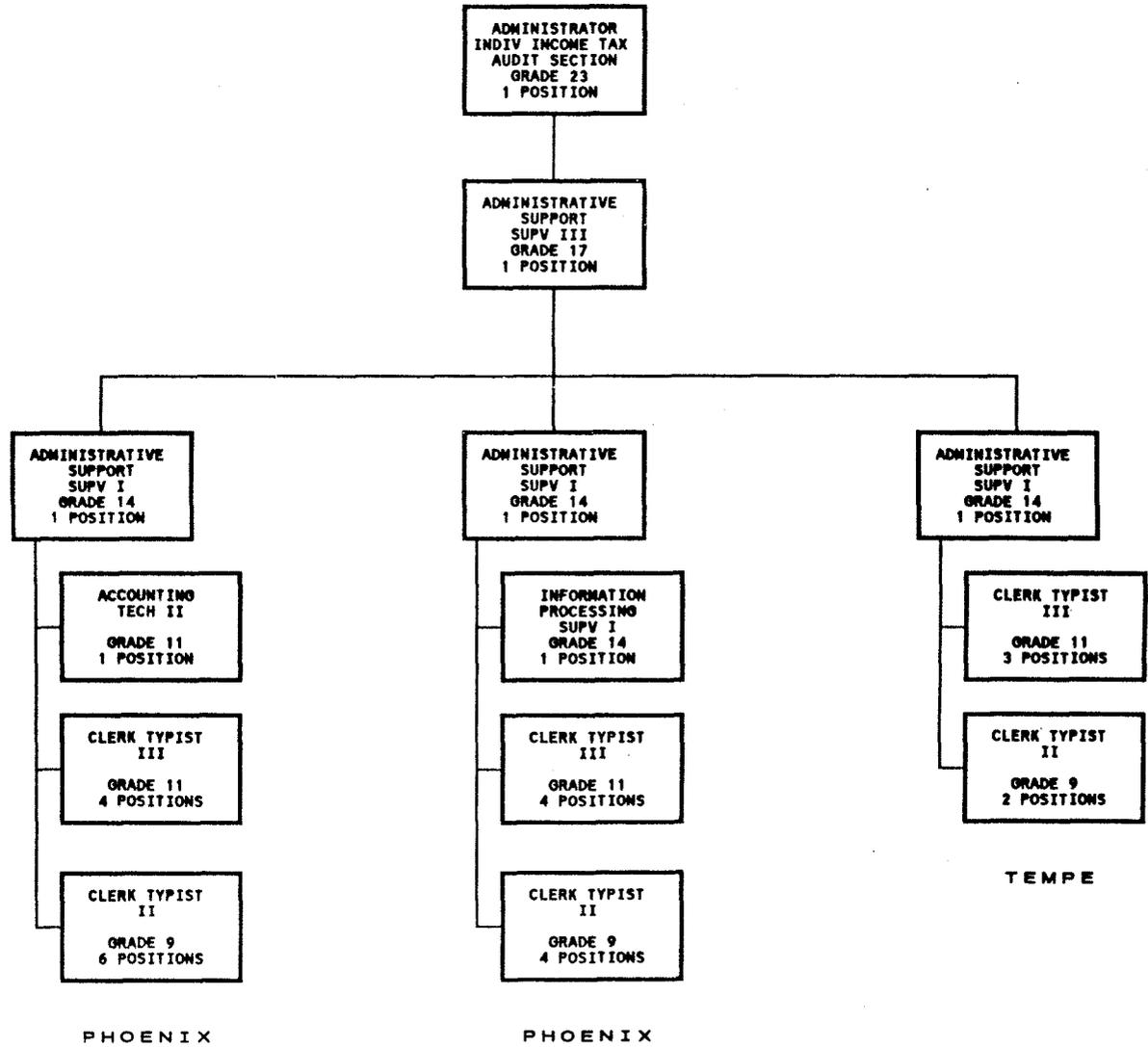
TUCSON



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DEPARTMENT OF REVENUE
INDIVIDUAL INCOME TAX AUDIT SECTION
PROPOSED ORGANIZATIONAL SECTION

ADMINISTRATIVE SUPPORT



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OPPORTUNITY COST OF MANUAL LEGAL RESEARCH

Current Situation

There are several sections within the Department of Revenue (DOR) where personnel involved in various aspects of tax law require the research, analysis and interpretation of legal issues. Some current procedures for performing legal research are inefficient and reduce the productivity of various positions in the Agency.

Tax Policy Section

The Tax Policy Section consists of three units. The Policy Assistance Unit responds to taxpayers' inquiries by researching, analyzing and interpreting tax law and issues written "letter inquiries". The Enforcement Assistance Unit reviews enforcement procedures and tax issues and provides written interpretation (legal briefs) to assist the Tax Protest Units in the Enforcement Division. The Legal Practices and Procedures Unit is responsible for the promulgation of rules. The Tax Policy Section primarily conducts manual paper research in the library. Sometimes the Tax Policy Section has unlimited free access to Arizona State University's electronic legal research library through the University's two law student interns fulfilling their field practicum at DOR. There are two electronic legal research library software systems available for utilization by the student interns. The WESTLAW and LEXIS systems are a computerized legal research tools which enable the user to query specific topics and quickly access tax information.

Although the exact number of inquiries requiring legal research was not available, Tax Policy personnel stated that they complete approximately 1,200 of these inquiries per year in addition to their other duties.

Hearings Office Section

The Hearings Office conducts hearings on taxpayers' petitions for review of tax assessments made by the Department and issues written decisions on the propriety of assessments. These written decisions require manual paper research of legal issues. Hearings Office staff utilize the electronic legal research system at the Capitol Library. The Capitol Library charges DOR \$3.00 per minute and 2.5 cents per line for computer print-outs.

In 1989, DOR personnel considered purchasing a compact disc (CD ROM) tax law library system and contacted a local computer software company to explore software acquisition. However, the CD ROM tax library system did not contain Arizona Tax Law or a Property Tax component. DOR's efforts to obtain the CD ROM software were discontinued.

Impact

There is an opportunity cost to the Department of Revenue for manual legal research. Manual compared to automated legal research is inefficient, consumes more man-hours which reduces productivity, and limits the amount of tax law information/sources available to personnel making legal rulings or preparing for litigation.

TABLE 1: FTE TIME DEVOTED TO MANUAL LEGAL RESEARCH

Tax Policy

Tax Policy has 15 FTE positions spending approximately 50% of their time conducting manual legal research. (Based on 1,840 actual annual work hours per person.)

2 Tax Anal.III's	\$20.23/hr. X 920 hrs. = \$18,611	X 2 =	\$ 37,223
10 Tax Anal.II's	\$18.51/hr. X 920 hrs. = \$17,029	X 10 =	\$170,290
3 Tax Anal. I's	\$16.85/hr. X 920 hrs. = \$15,502	X 3 =	<u>\$ 46,506</u>
			\$254,019

920 hrs. X 15 FTE = 13,800 hrs.

Hearings Office

The Hearings Office has four FTE positions spending approximately 30% of their time conducting manual legal research.

3 Hear. Off.	\$24.30/hr. X 552 hrs. = \$13,414	X 3 =	\$40,242
1 Admin.	\$24.30/hr. X 552 hrs. = \$13,414	X 1 =	<u>\$13,414</u>
			\$53,656

552 hrs. X 4 FTE = 2,208 hrs.

- Total Hours of Research, Analysis & Interpretation = 16,008 or 8.7 FTE
- Total Value (Research, Analysis & Interpretation) = \$307,675.

Recommendations

We support DOR's desire to purchase Tax Law Library software on compact disc (CD-ROM) to conduct legal research.

We also recommend the elimination of one Tax Analyst I (Grade 21) in Tax Policy.

Benefits

- Legal research software will increase productivity and reduce related manual procedures by 50%. Current annual backlogs of 60 inquiry letters will be reduced and service levels to taxpayers will dramatically improve. This recommendation will effectively increase the productivity in the Tax Policy Section and the Hearings Office and increase the amount of time available to accomplish the additional duties detailed below.
 - The Tax Policy Administrator plans to devote the additional time gained to provide more information to the taxpayer, such as a Summary of Arizona's Taxpayer's Bill of Rights; produce more administrative tax policies and procedures; and shorten the response time to taxpayers in issuing responses to inquiries and preparing rules
 - The Hearings Office Administrator plans to devote the additional time gained to increase the accuracy and shorten the response time in issuing legal decisions
- Legal research software will simplify legal research by integrating materials in an index which can be queried and cross-referenced
- Legal research software will provide DOR with system enhancements in addition to case law such as minute entries, up-to-date information on statutes, newly enacted legislation, recently reported court rules and orders

- Legal research software is compatible with DOR personal computers and word processing software
- Legal research can be conducted within DOR and will reduce the amount of staff time spent away from the work area
- Computer hardware costs will be minimal because DOR already has personal computers to utilize legal research software
- The legal research software will provide the monthly updates on case law, statutes, regulations and rulings to DOR personnel issuing letter rulings, legal briefs or to assist DOR in preparing for appeals and litigation
- The legal research tools will be accessible to all DOR personnel conducting research through a Local Area Network.

It is important to note that one aspect of conducting legal research will not be impacted by the addition of the CD ROM software. Tax Policy and Hearings Office staff will continue to have to leave their work areas to access specific tax cases through the WESTLAW or LEXIS systems.

COST/BENEFITS OF COMPUTERIZED TAX LAW LIBRARY

Annual Savings

One Tax Analyst I + 22.5% ERE = \$47,535

Annual Savings = \$47,535*

*less current WESTLAW/LEXIS costs spent (Unable to be determined)

Annual Costs

Federal Tax Service Software (basic)	\$850/yr.
Estate & Property Tax)	\$425/yr.
Revenue Ruling and Procedures	\$295/yr.
IRS Publication on CD's	<u>\$225/yr.</u>

Annual Costs	<u>\$1,795</u>
Net Annual Savings	\$45,740

One-Time Cost

Compact Disc (CD ROM) Player	\$ 600
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Implementation

- Identify desired system features (i.e., Estate Tax, Corporate Tax, Federal Income Tax etc.)
- Coordinate the purchase of a legal research software with DOR's Data Management personnel, selected Computer Company and DOA Purchasing Office (Requests For Bids, etc.).

DIVISION CONSOLIDATION

Current Situation

The Department of Revenue has six divisions:

- Taxpayer Information and Assistance
- Tax Enforcement
- Data Management
- Property Valuation
- Administrative Services,
- Oversight and Analysis

The divisions of (1) Administrative Services and (2) Oversight and Analysis contain 165 employees with 15 sections and an average of 11 employees per section. The nine Oversight and Analysis sections have less than nine FTE positions per section (see Exhibits 27, Administrative Services, Present Organizational Structure through Exhibit 34, Purchasing Section, and Exhibit 40, Oversight & Analysis, Present Organizational Structure through Exhibit 50, Econometrics Section, Present Organizational Structure). The units of both divisions serve as administrative and program support for the larger line divisions of Tax Enforcement and Property Valuation, as well as Data Management, and to some extent provide support for the operational oversight of the Deputy Director's office.

As recently as 1991 the Agency was organized into five divisions instead of the present six. Most sections of the new Oversight and Analysis Division were previously located in either the Administrative Services Division or assigned with the Deputy Director in the Director's office.

When reviewing the administration and work activities of the two divisions of Administrative Services and Oversight and Analysis, a number of findings point to the potential for fewer management positions and a broader span of control:

- Relatively high structure to the work environment: For the most part, position functions and responsibilities in these two divisions are clearly defined and structured, requiring little guidance or corrective action from management

- Standardized and routine services: Most services provided by these two divisions are those which are provided in any large regulatory agency (accounting, procurement, physical properties and records management, publications, administrative hearings, and similar others). Standard methods and procedures are used in carrying out objectives
- Low need for coordination between subordinates: Most sections are structured to function independently of each other and require little coordination on a day-to-day basis
- Use of organizational structure to provide promotional opportunities: As is true in many areas of state government, limitations – over the years – on pay increases and inflexible job classifications may have resulted in the creation of supervisory and managerial positions as personnel rewards and incentives.

Within the Administrative Services Division, three of the six sections reporting to the Division Director are especially small:

- Facilities Management, with three line employees headed by an administrator at a Grade 17
- Estate Tax and Fiduciary, with six line employees headed by an administrator at grade 14
- Purchasing, with four line employees headed by an administrator at a grade 21.

Within Oversight and Analysis Division four sections are exceptionally small:

- Hearings, with three line positions
- Central Information Services with two line positions
- Management Analysis with two line positions
- Econometrics with three line positions

When reviewing the missions and the actual work activities of the entire agency, including the operational oversight over the divisions provided by the deputy director, some appear out of alignment with normal business unit structure.

- Central Information Services within the O & A Division functions as an independent liaison/coordinator/troubleshooter between data processing personnel and the Property Valuation Division and the various County Assessors to ensure that the needs of the users are understood by the data processing personnel, and the technical aspects and capabilities of data processing are understood by the users
- Taxation System Support within the O & A Division serves as data processing quality control for taxation systems and provides impact analysis for proposed data systems, systems eventually established by the Data Management Division. It also functions as an independent liaison between data processing personnel and the users of the non-property tax systems
- The O & A section of Bingo administers licensing and report processing similar to other special tax administration. All other special tax administration (those not associated with the "Big Four" of Individual Income, Corporate Income, Withholding and Sales) is handled within the Administrative Services Division
- Management Analysis is the smallest section in O & A, but is separate from Internal Audit both of which are a research and analysis function. Together with Tax Policy and Econometrics, all relate to Agency operational oversight activities cutting across all divisions, activities normally administered by an agency deputy director
- Community Activities/Publications is a section involved in providing educational and informational materials and presentations to the public and the accounting community as well as throughout the agency
- While the Hearings Section could be administered at any organizational location away from the tax policy decision, the fact that this section provides the 1st level review, with the Director's Office providing the appeal review, suggests that this office is best considered a support function organizationally distant from both tax decision and second level appeal.

In summary, consolidation and realignment opportunities can permit DOR to effect cost savings in both Division management and section administration.

Impact

A review of the 15 sections' responsibilities and duties, and a comparison of the operating objectives and missions of the two divisions clearly indicate an over-specialization of functions and corresponding organizational units. The result is that an excessive number of administrative units are in place in each division, each with individual managers and supervisors; some units have only marginal distinctions between their respective objectives.

Overall, the ratio of management/supervisory positions to line employee positions is unusually high: 1 to 3.9. Individually, the two divisions' ratios are as follows:

- Administrative Services Division: 1 to 4.4
- Oversight and Analysis Division: 1 to 3.3.

Even though some of the section managers' positions are at relatively low grades, the low ratios produce a significantly high cost of management for each division. In the two divisions combined, \$.46 is spent on management/supervision for every dollar spent on labor (line employees).

Recommendations

We recommend implementation of the following improvements: (see Table A, Proposed DOR Division Consolidation)

- Merge selected individual sections with similar operational objectives into one unit. In this connection, merge the Management Analysis Section with the Internal Audit and Investigations Section and transfer the new combined unit to the Deputy Director's Office (see Exhibit 24, Department of Revenue, Proposed Organizational Structure).

This change will align two closely related functions (audit and analysis) and merge two small administrative units.

- Transfer Taxation Systems Support (TSS) and Central Information Support (CIS) from the Oversight and Analysis Division to the Taxpayer Support Division. This move maintains their independent position in a neutral division but also serves to move TSS closer to Taxpayer Information and Assistance which often receives the first indications of potential systems problems (see Exhibit 24, Department of Revenue, Proposed Organizational Structure)
- Consolidate the two small units of Purchasing (contains four line employees) and Facilities Management (contains three line employees) with a third section (Records Management). All of these sections are presently located within the Administrative Services Division. This combines small sections within a larger one and aligns all physical property management under one administration (see Exhibit 6, Procurement and Facilities/Records Section, Proposed Organizational Structure – Administrative Services Division)
- Transfer the small section called Estate Tax and Fiduciary, as a separate unit, to the Comptroller's Office; this aligns this tax collection effort with the other special tax areas already under the direction of the Comptroller (see Exhibit 5, Comptroller's Office, Proposed Organizational Structure)
- Transfer the Bingo Tax Collection Section from the Oversight and Analysis Division to the Administrative Services Division. This aligns the special tax collections functions but also establishes Bingo with its necessary high profile compared to other special taxes (see Exhibit 35, Administrative Services Division, Proposed Organizational Structure)
- Transfer the Community Activities and Publications Section from the Oversight and Analysis Division to the Taxpayer Support Division (see Exhibit 24, Department of Revenue, Proposed Organizational Structure). This aligns the section with other taxpayer information functions
- Relocate the Oversight and Analysis Hearings Section, providing independent administrative due process for taxpayers, to the Administrative Services Division (see Exhibit 24, Department of Revenue, Proposed Organizational Structure)
- Transfer the two sections remaining in the present Oversight and Analysis Division to the Deputy Director's Office. These are Econometrics and Tax Policy. These sections, like the audit and analysis functions, aid in providing review and policy direction for all divisions (see Exhibit 26, Special Support, Proposed Organizational Structure).

Benefits

These recommendations integrate the functions of the Oversight and Analysis Division ongoing Agency functions:

- Staff support of the Deputy Director's operational oversight function
- Dissemination of information to the taxpayer public in the Taxpayer Support Division
- Oversight and policy direction from the Deputy Director's Office
- Coordination with data users and data processing functions within the Taxpayer Support Division.
- Comprehensive administrative support rendered by the Administrative Services Division

With this integration, together with the consolidation of some units within the sections already referenced, the following improvements can be achieved:

- The overall ratios of management to line employees can be increased
- Spans of control for individual managers and supervisors can be expanded, thus more efficiently administering programs and reaching objectives
- Administrative support functions will be aligned with the Administrative Services Division
- Other sections, formerly associated with the Oversight and Analysis Division, will be appropriately aligned with line divisions or operational management areas
- The cost to manage is reduced from \$.46 to \$.39 for every dollar spent on labor. This is a nominal reduction of 15 percent. Organizations typically have a cost to manage between \$.20 to \$.30. With this in mind, recommendation implementation actions may reveal further opportunities to reduce the cost to manage.

Additionally, cost savings can be realized, as follows:

One Administrative Secretary I (grade 12) (from staff support to the Oversight & Analysis Assistant Director)	\$23,214
One Records Management Supervisor (grade 17) (from a section merged with another)	\$33,066
One Executive Staff Assistant (grade 20) (from staff support to the Oversight & Analysis Assistant Director)	\$43,254
One Assistant Director (grade 26) (from Division Management in Oversight & Analysis Division)	<u>\$74,976</u>
Total	<u>\$174,510</u>

Implementation

- Develop detailed organizational integration plan
- Submit plan to DOA Personnel
- Communicate realignment to Department of Revenue employees who will be affected by changes
- Implement plan.

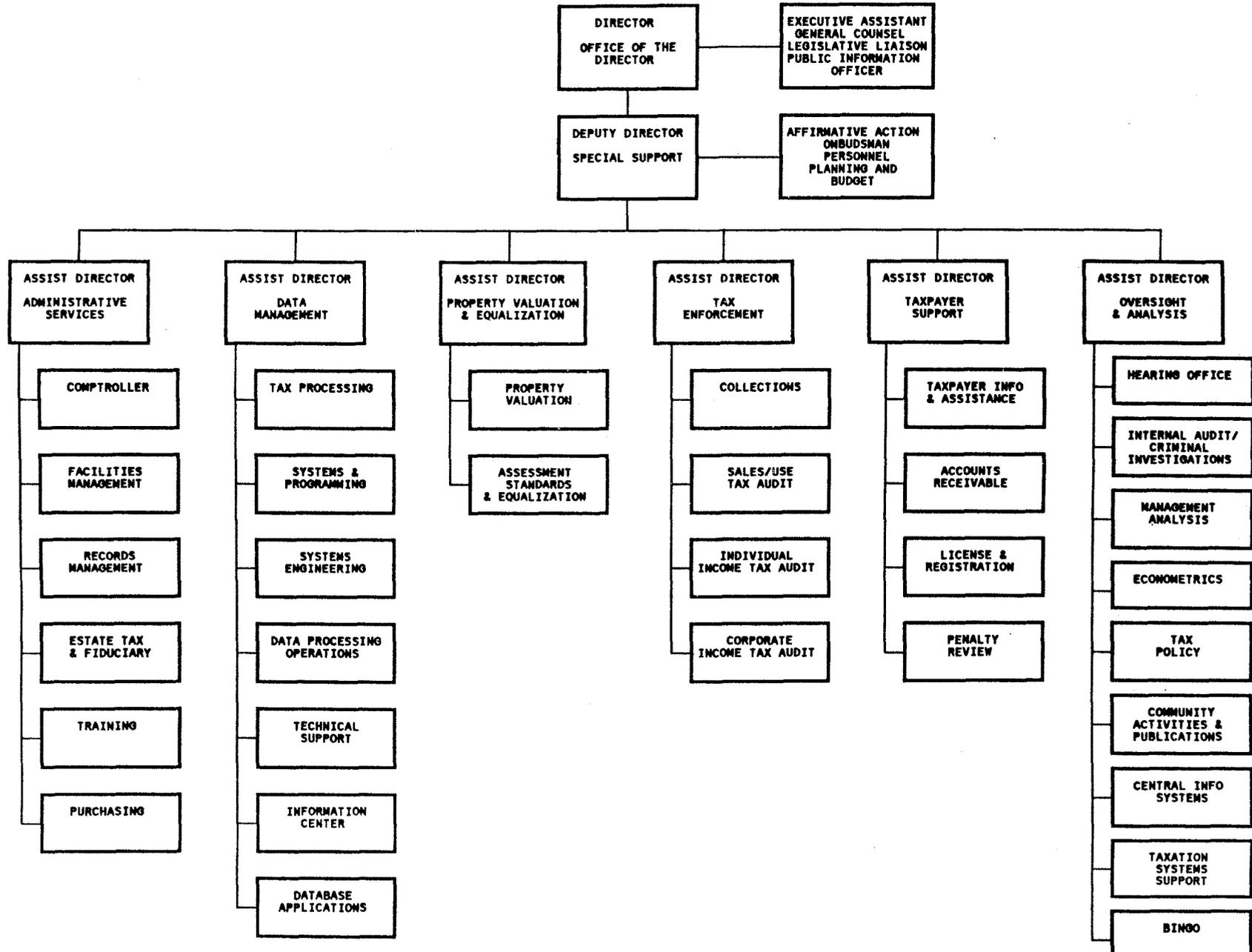
TABLE A: PROPOSED DOR DIVISION REORGANIZATION

Division	Unit	Recommended Action: Transfer/Merge	Comments	FTE Action Required
O'Sight & Analysis	Community Action & Pub.	Transfer to Taxpayer Support		
O'Sight & Analysis	Econometrics	Transfer to Deputy Director		
O'Sight & Analysis	Hearing Office	Transfer to Admin. Services Div.		
O'Sight & Analysis	Bingo	Transfer to Admin. Services Div.		
O'Sight & Analysis	Tax Policy	Transfer to Deputy Director		
O'Sight & Analysis	Tax System Support	Transfer to Taxpayer Support		
O'Sight & Analysis	Central Info. Services	Transfer to Taxpayer Support		
O'Sight & Analysis	Management Analysis	Transfer both units to Deputy Director		
O'Sight & Analysis	Internal Audit/ Investigations		Merge these two units	
Administrative Svcs	Records Management	Merge w/Procurement & Facilities Management	Create new Procurement/ Records/Facilities Mgmt. Unit	
Administrative Svcs	Facilities Management	Merge w/Procurement & Records Management	Create new Procurement/ Records/Facilities Mgmt. Unit	Eliminate (1) FTE in Records Management
Administrative Svcs	Estate Tax & Fiduciary	Transfer to Comptroller's Office		
Administrative Svcs	Purchasing	Merge w/Records Management & Facilities Management	Create new Procurement/ Records/Facilities Mgmt. Unit	
O'Sight & Analysis		Eliminate Division Management		Eliminate (1) A.D. (1) Exec. Assistant (1) Admin. Secretary

DOR - 79

STATE OF ARIZONA
DEPARTMENT OF REVENUE
PRESENT ORGANIZATIONAL STRUCTURE

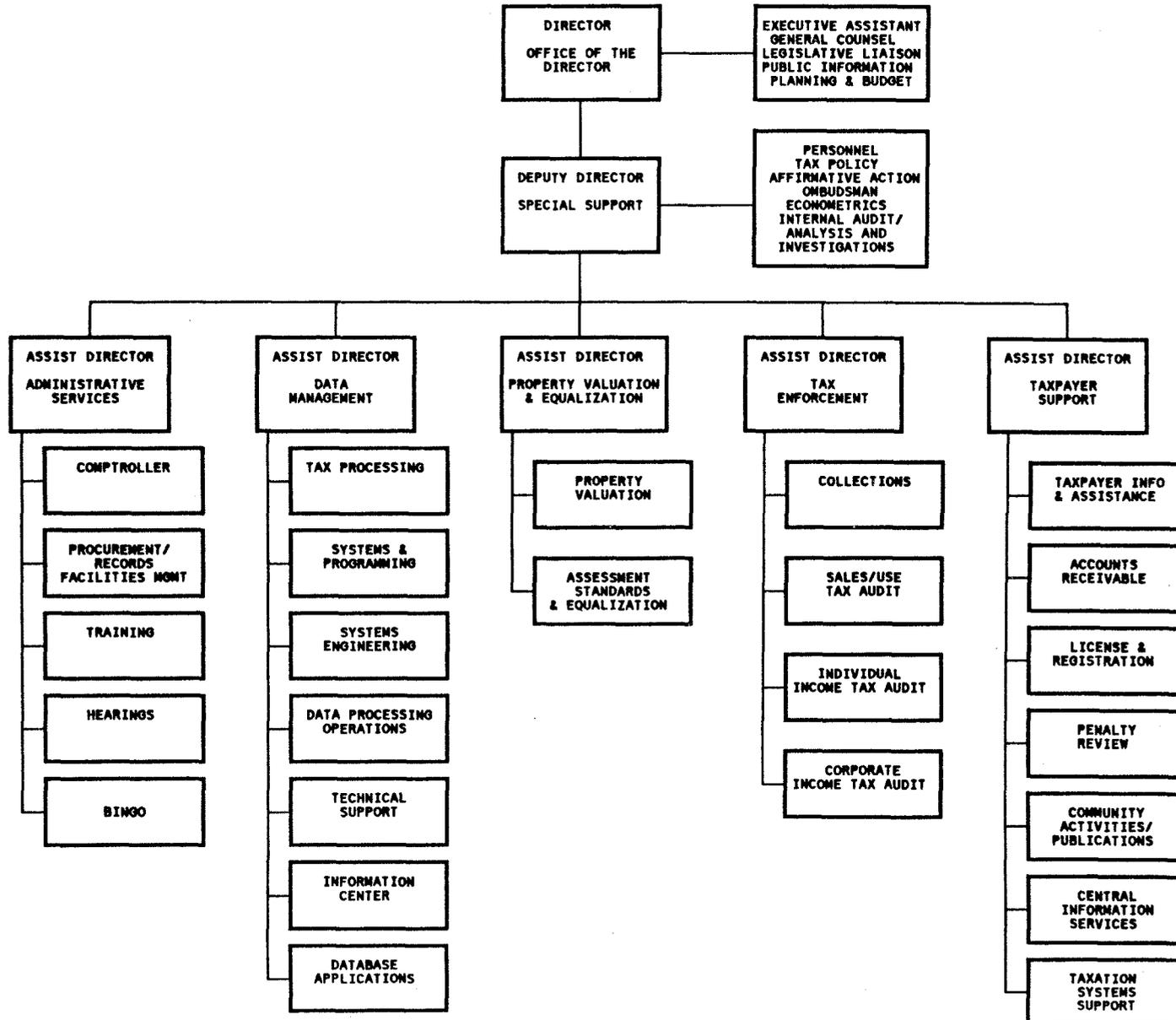
EXHIBIT 23



DOR - 80

STATE OF ARIZONA
DEPARTMENT OF REVENUE
PROPOSED ORGANIZATIONAL STRUCTURE

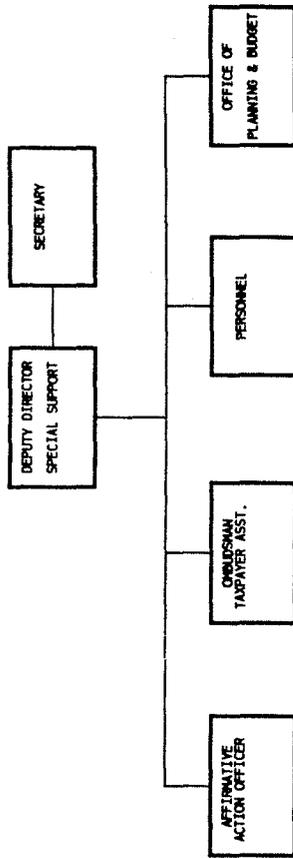
EXHIBIT 24



DOR - 81

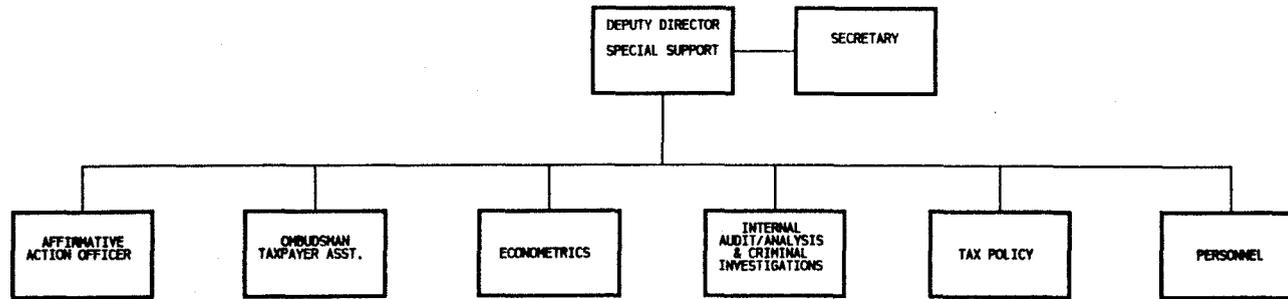
EXHIBIT 25

STATE OF ARIZONA
DEPARTMENT OF REVENUE
SPECIAL SUPPORT
PRESENT ORGANIZATIONAL STRUCTURE



STATE OF ARIZONA
DEPARTMENT OF REVENUE
SPECIAL SUPPORT
PROPOSED ORGANIZATIONAL STRUCTURE

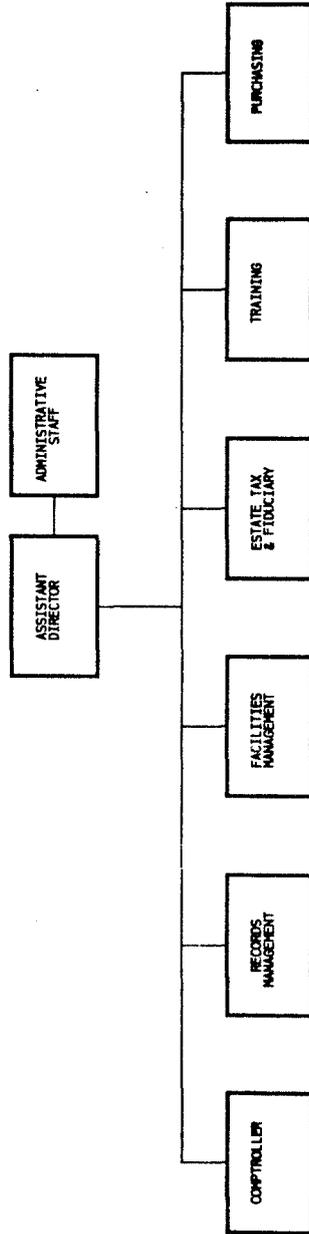
EXHIBIT 26



DOR - 83

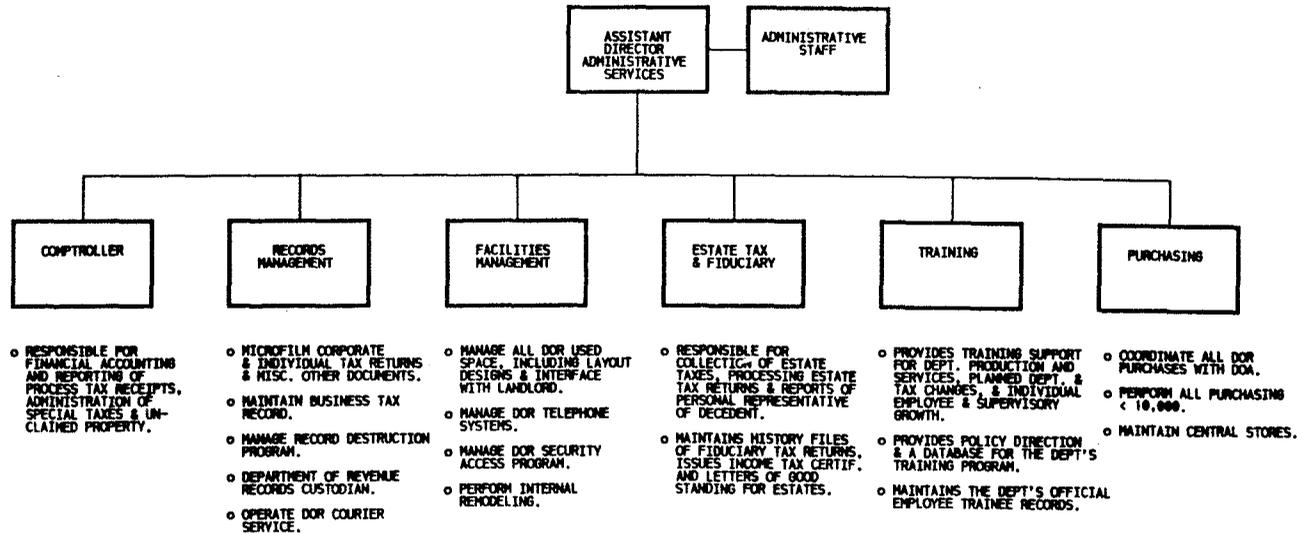
EXHIBIT 27

STATE OF ARIZONA
DEPARTMENT OF REVENUE
ADMINISTRATIVE SERVICES
PRESENT ORGANIZATIONAL STRUCTURE



STATE OF ARIZONA
 DEPARTMENT OF REVENUE
 ADMINISTRATIVE SERVICES
 PRESENT ORGANIZATIONAL STRUCTURE

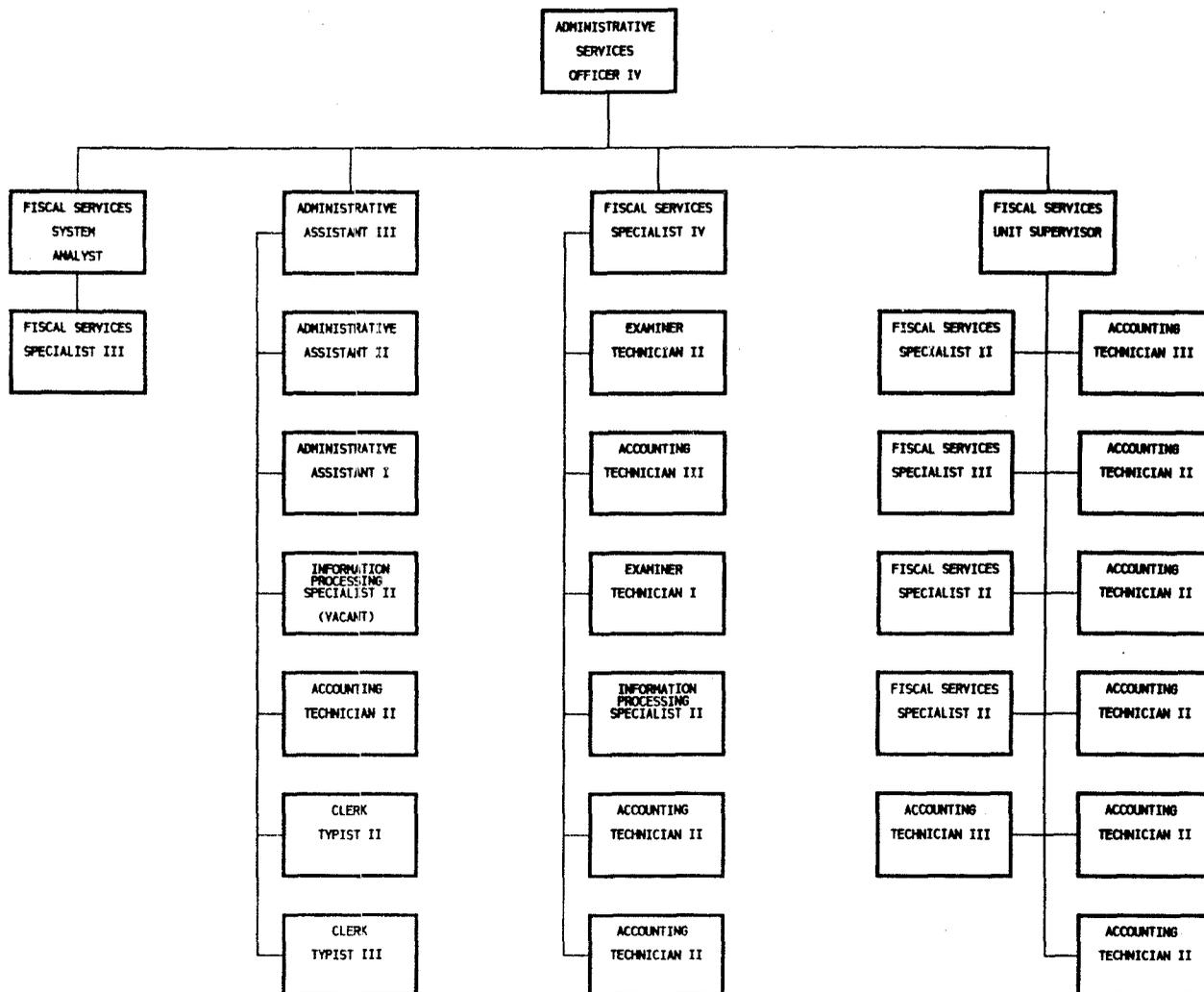
EXHIBIT 28



DOR - 86

STATE OF ARIZONA
 DEPARTMENT OF REVENUE
 ADMINISTRATIVE SERVICES
 COMPTROLLER'S OFFICE
 PRESENT ORGANIZATIONAL STRUCTURE

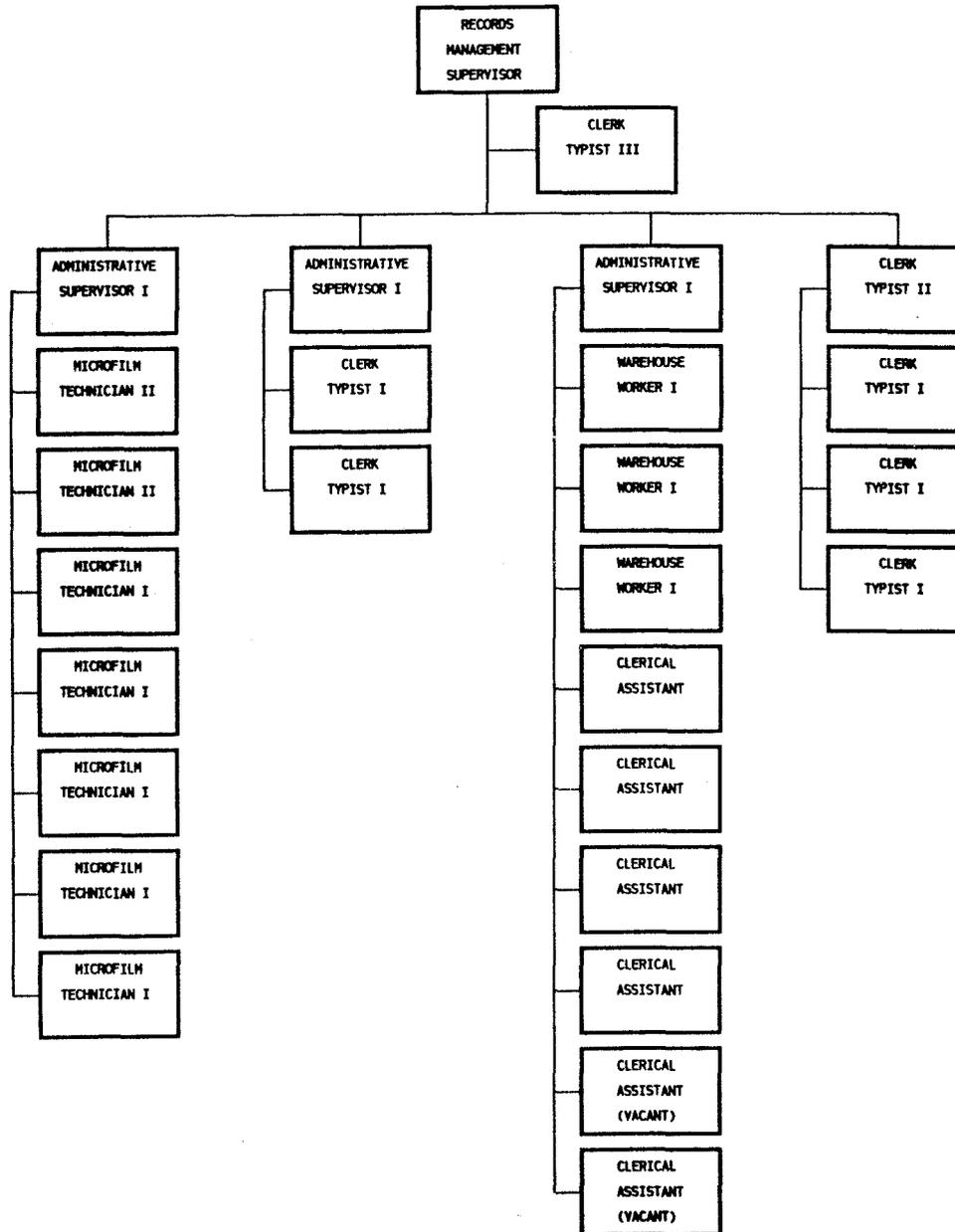
EXHIBIT 29



DOR - 86

STATE OF ARIZONA
 DEPARTMENT OF REVENUE
 ADMINISTRATIVE SERVICES - RECORDS MANAGEMENT
 PRESENT ORGANIZATIONAL STRUCTURE

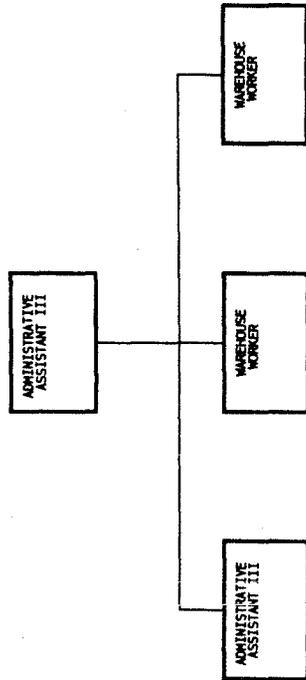
EXHIBIT 30



DOR - 87

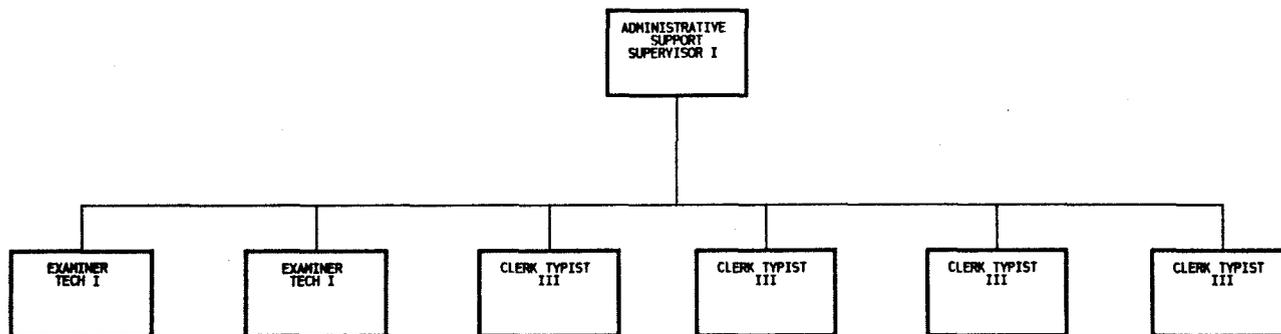
EXHIBIT 31

STATE OF ARIZONA
DEPARTMENT OF REVENUE
ADMINISTRATIVE SERVICES
FACILITIES MANAGEMENT SECTION
PRESENT ORGANIZATIONAL STRUCTURE



STATE OF ARIZONA
DEPARTMENT OF REVENUE
ADMINISTRATIVE SERVICES
ESTATE TAX & FIDUCIARY
PRESENT ORGANIZATIONAL STRUCTURE

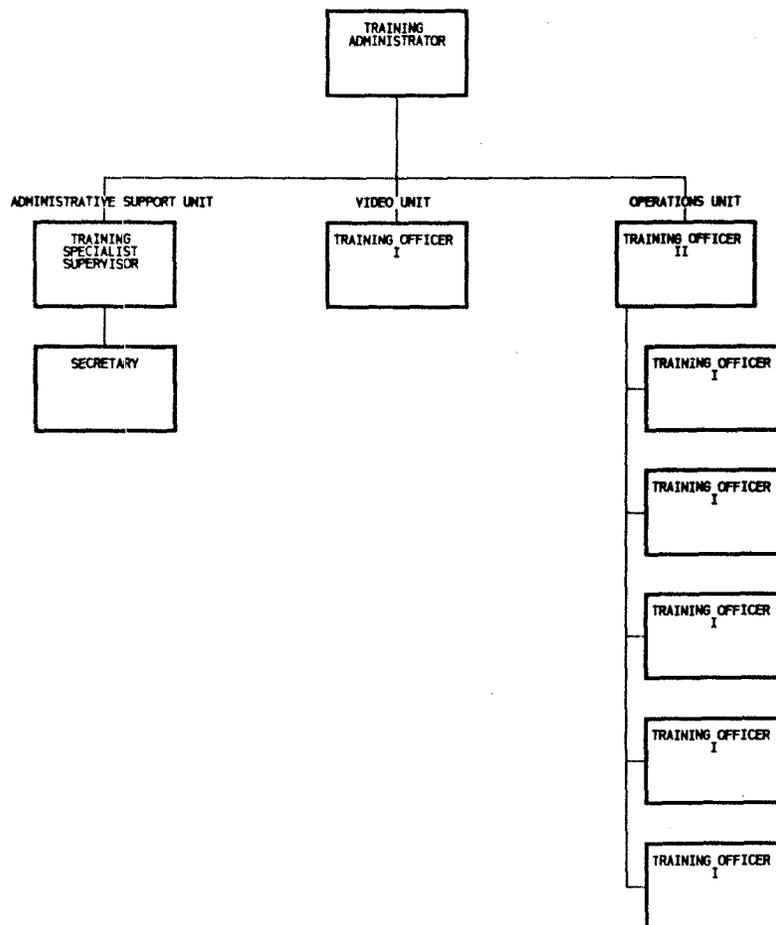
EXHIBIT 32



DOR - 89

STATE OF ARIZONA
DEPARTMENT OF REVENUE
ADMINISTRATIVE SERVICES
TRAINING SECTION
PRESENT ORGANIZATIONAL STRUCTURE

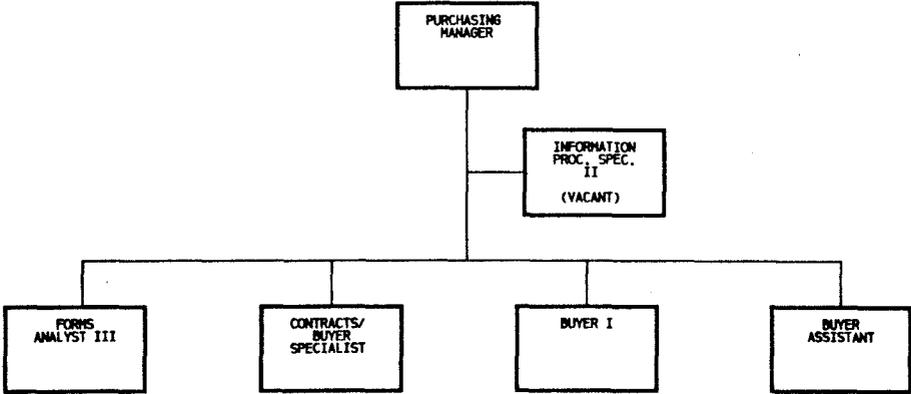
EXHIBIT 33



DOR - 80

STATE OF ARIZONA
DEPARTMENT OF REVENUE
ADMINISTRATIVE SERVICES
PURCHASING SECTION
PRESENT ORGANIZATIONAL STRUCTURE

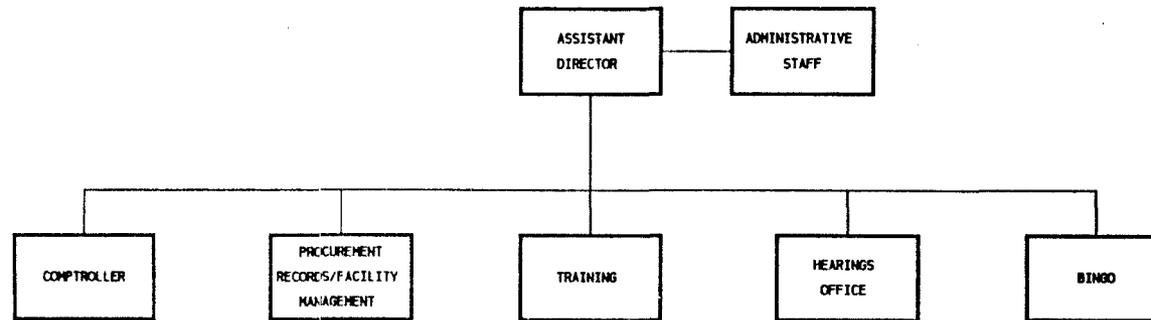
EXHIBIT 34



DOR - 91

STATE OF ARIZONA
DEPARTMENT OF REVENUE
ADMINISTRATIVE SERVICES DIVISION
PROPOSED ORGANIZATIONAL STRUCTURE

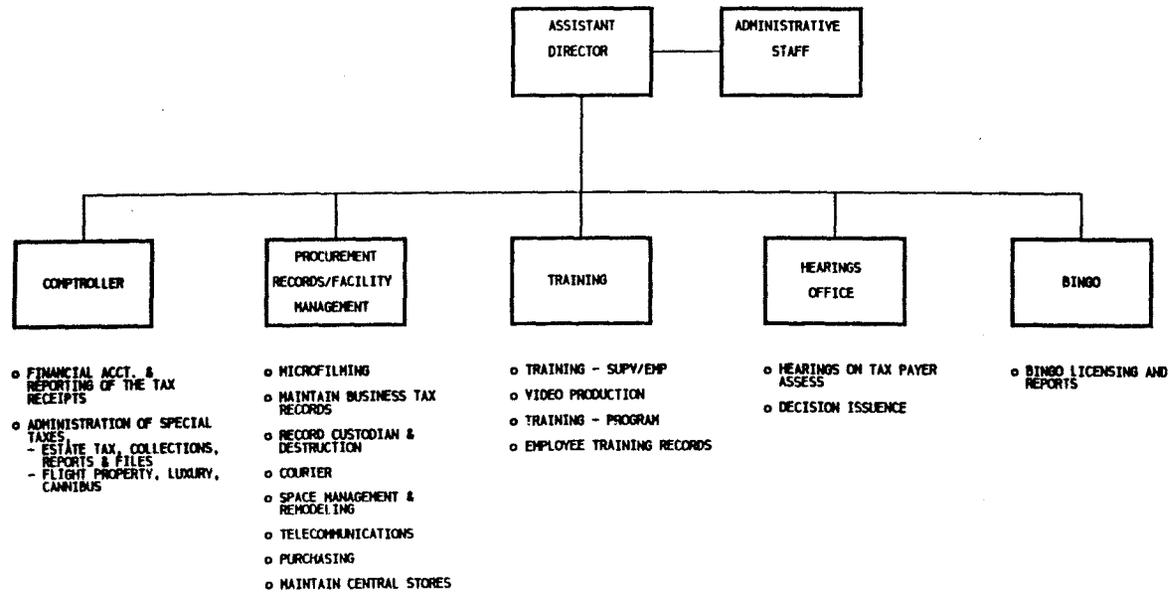
EXHIBIT 35



DOR - 92

STATE OF ARIZONA
 DEPARTMENT OF REVENUE
 ADMINISTRATIVE SERVICES DIVISION
 PROPOSED ORGANIZATIONAL STRUCTURE

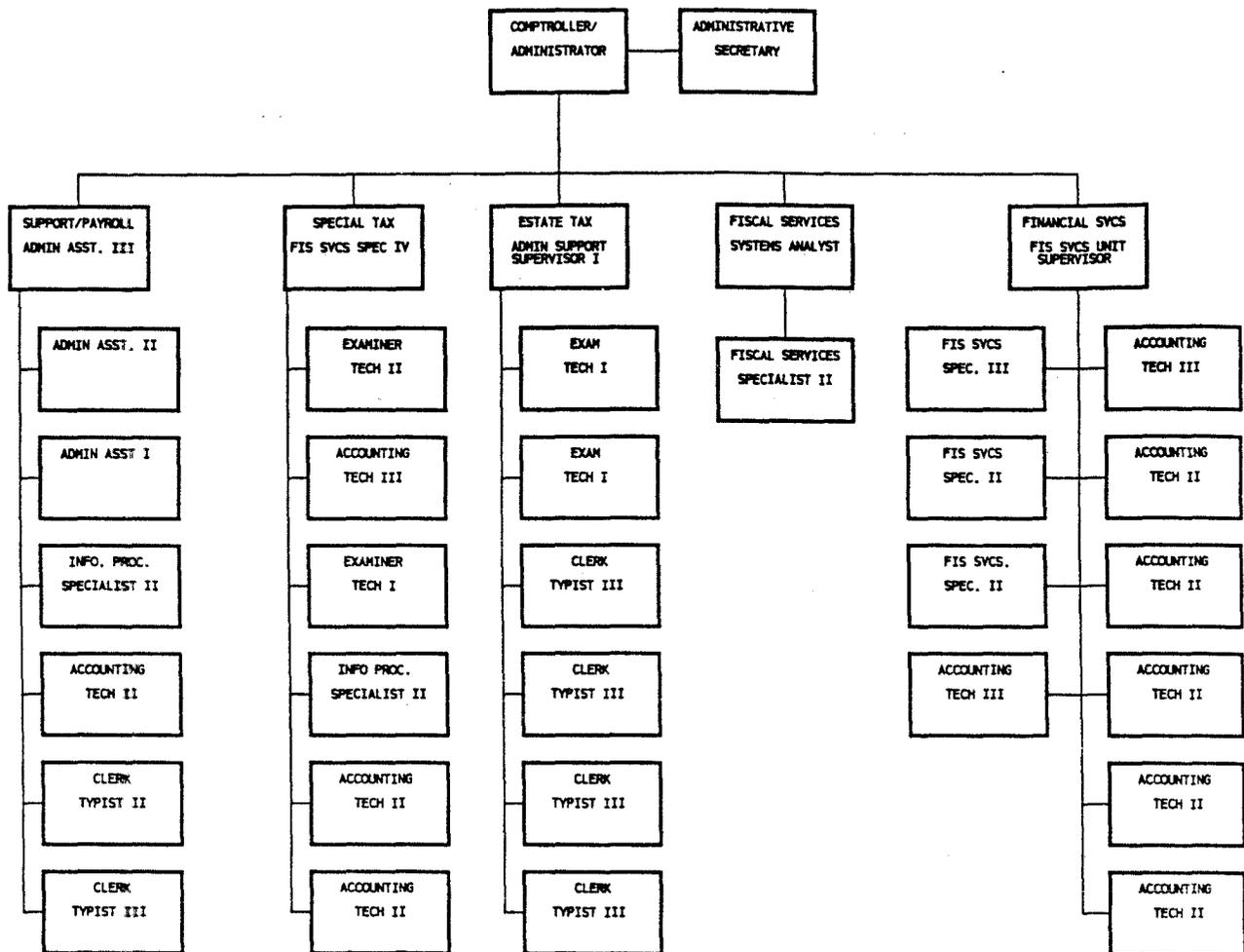
EXHIBIT 36



DOR - 83

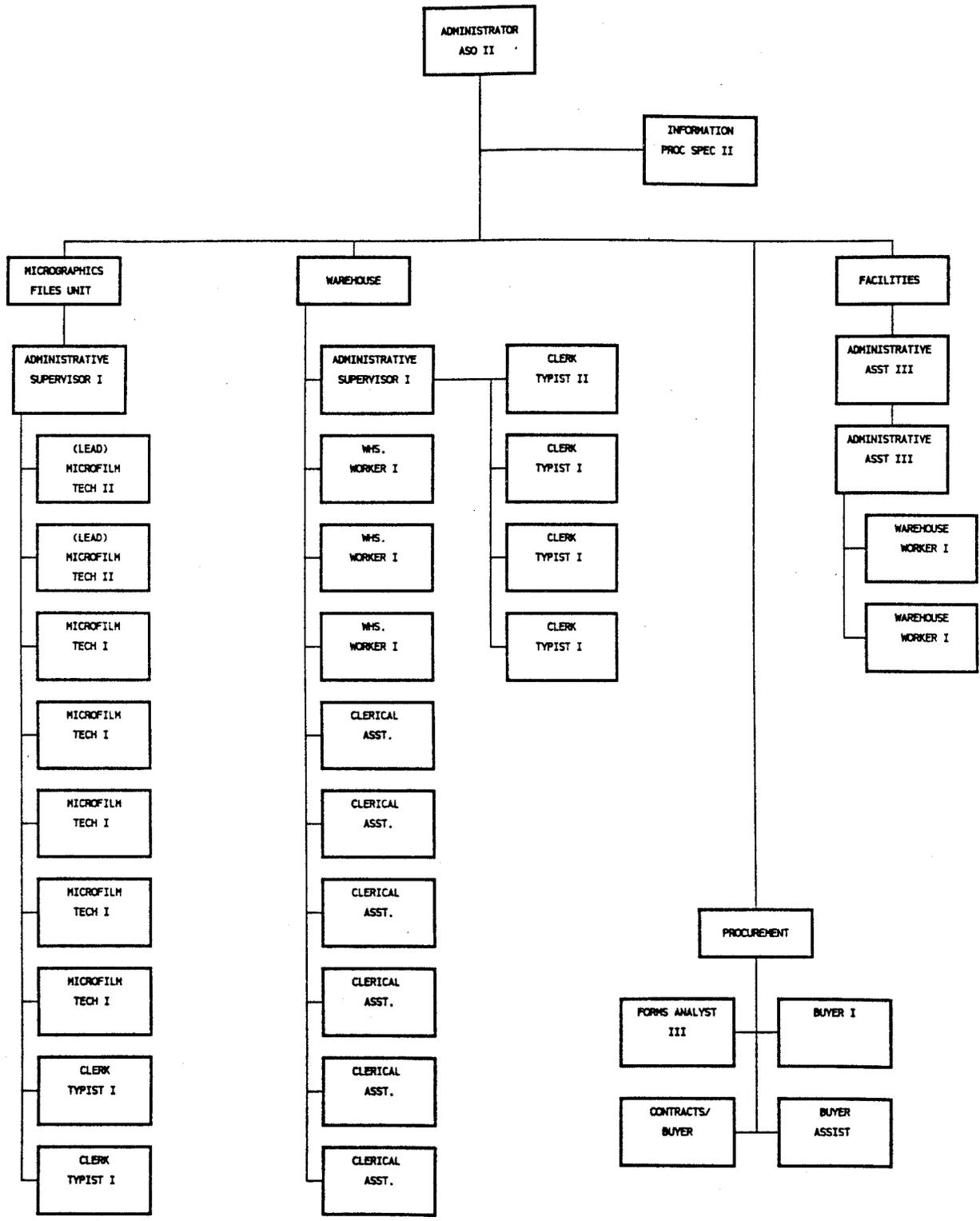
DEPARTMENT OF REVENUE
 ADMINISTRATIVE SERVICES DIVISION
 OFFICE OF THE COMPTROLLER
 PROPOSED ORGANIZATIONAL STRUCTURE

EXHIBIT 5



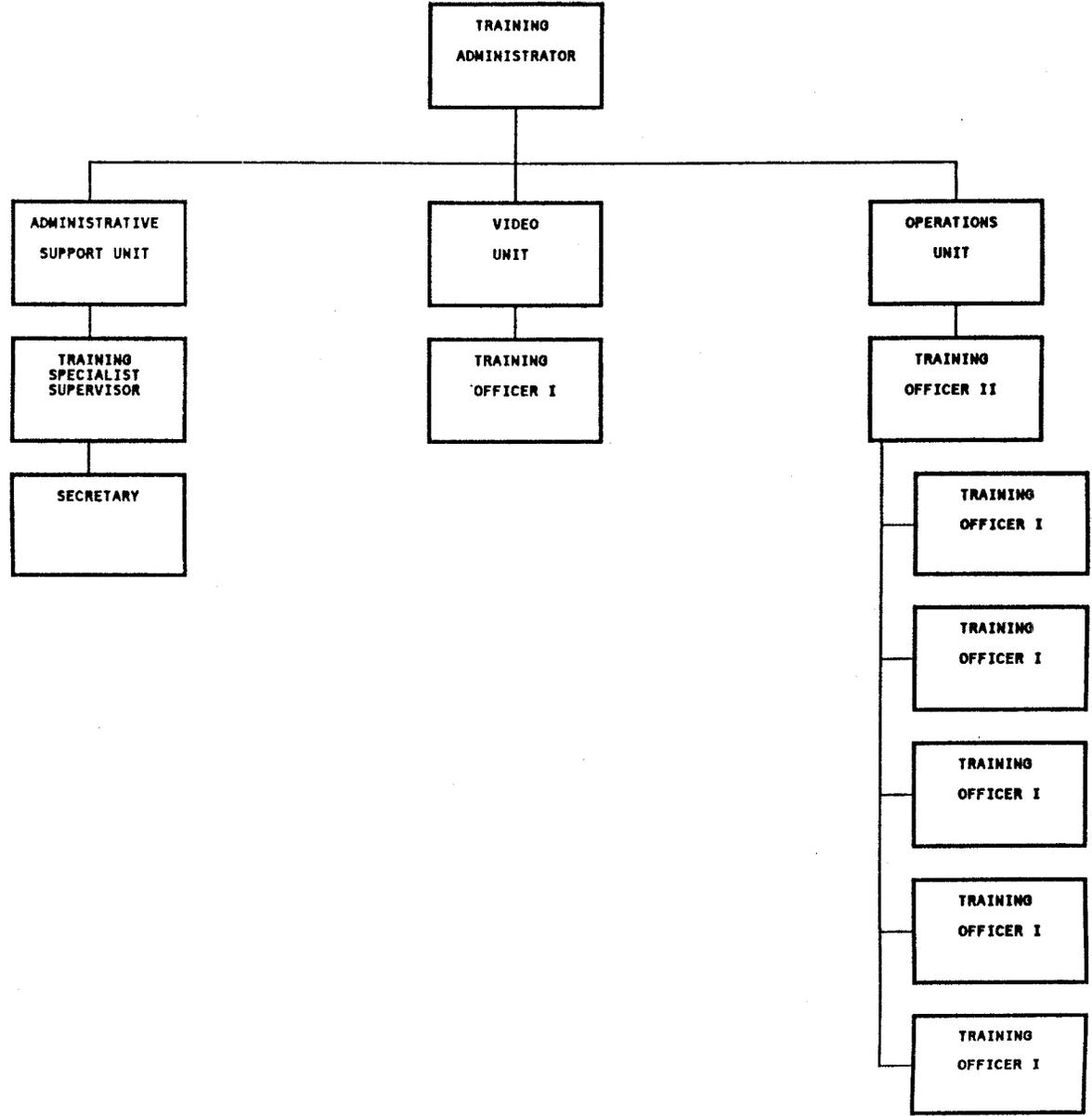
**ADMINISTRATIVE SERVICES DIVISION
 PROCUREMENT AND FACILITIES/RECORDS SECTION
 PROPOSED ORGANIZATIONAL STRUCTURE**

EXHIBIT 6



DEPARTMENT OF REVENUE
ADMINISTRATIVE SERVICES DIVISION
TRAINING SECTION
PROPOSED ORGANIZATIONAL STRUCTURE (NO CHANGE)

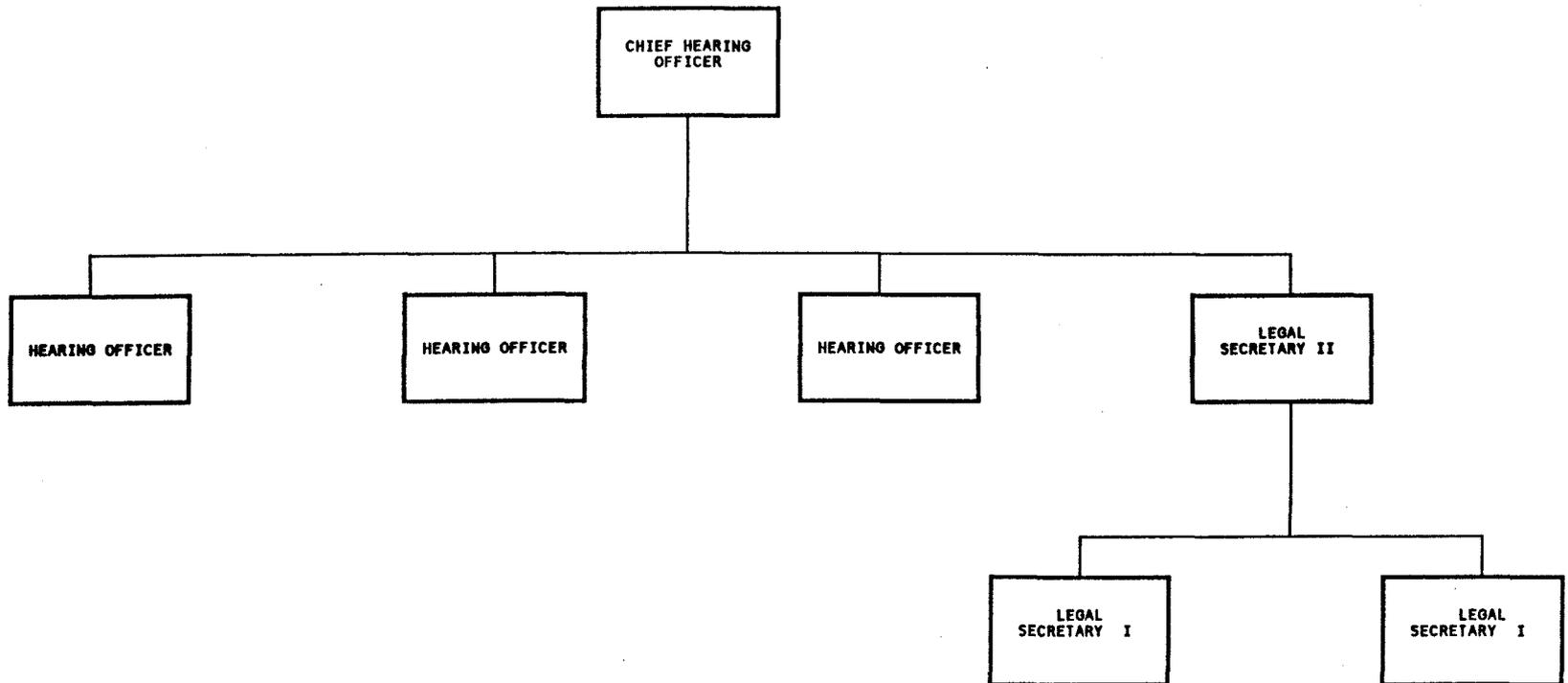
EXHIBIT 37



DOR - 98

DEPARTMENT OF REVENUE
ADMINISTRATIVE SERVICES DIVISION
HEARINGS OFFICE
PROPOSED ORGANIZATIONAL STRUCTURE (NO CHANGE)

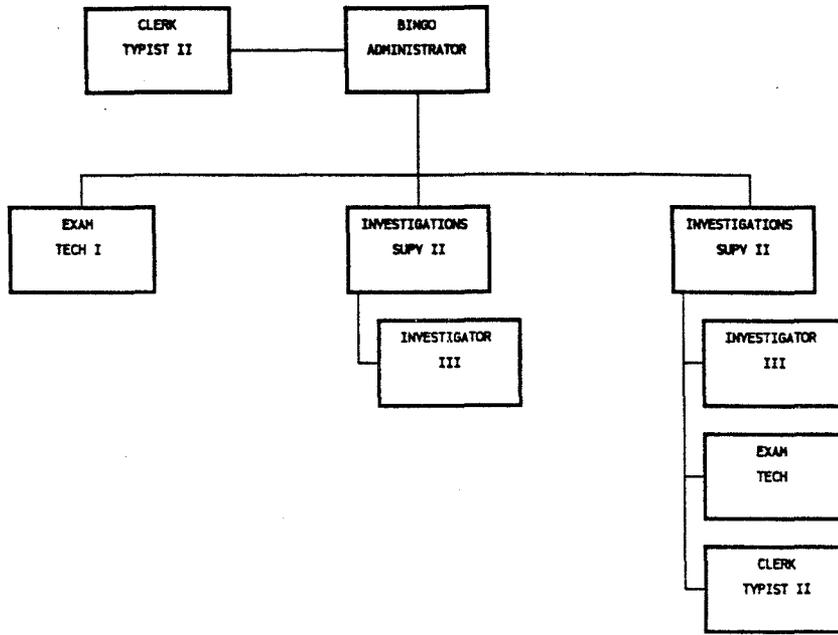
EXHIBIT 38



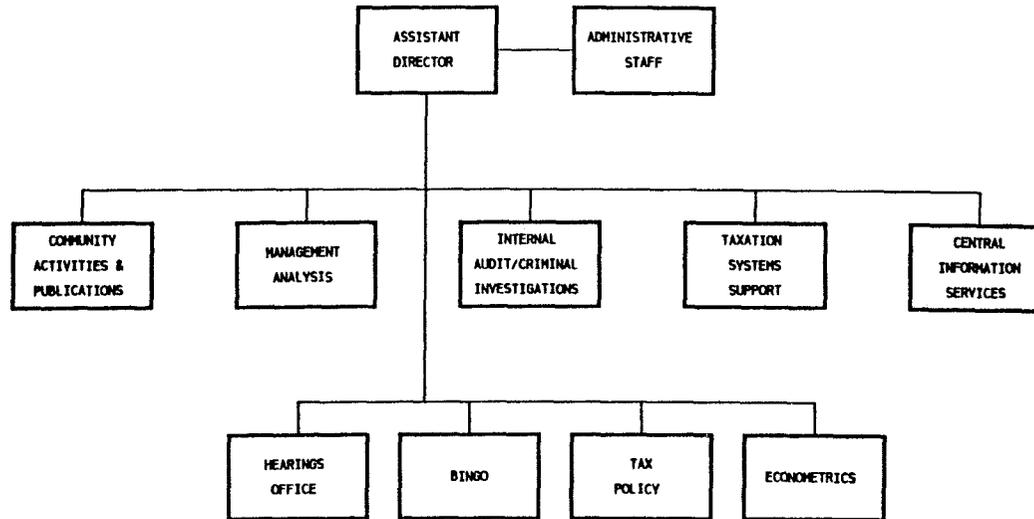
DOR - 97

DEPARTMENT OF REVENUE
ADMINISTRATIVE SERVICES DIVISION
BINGO ADMINISTRATION
PROPOSED ORGANIZATIONAL STRUCTURE

EXHIBIT 39



STATE OF ARIZONA
DEPARTMENT OF REVENUE
OVERSIGHT & ANALYSIS
PRESENT ORGANIZATIONAL STRUCTURE



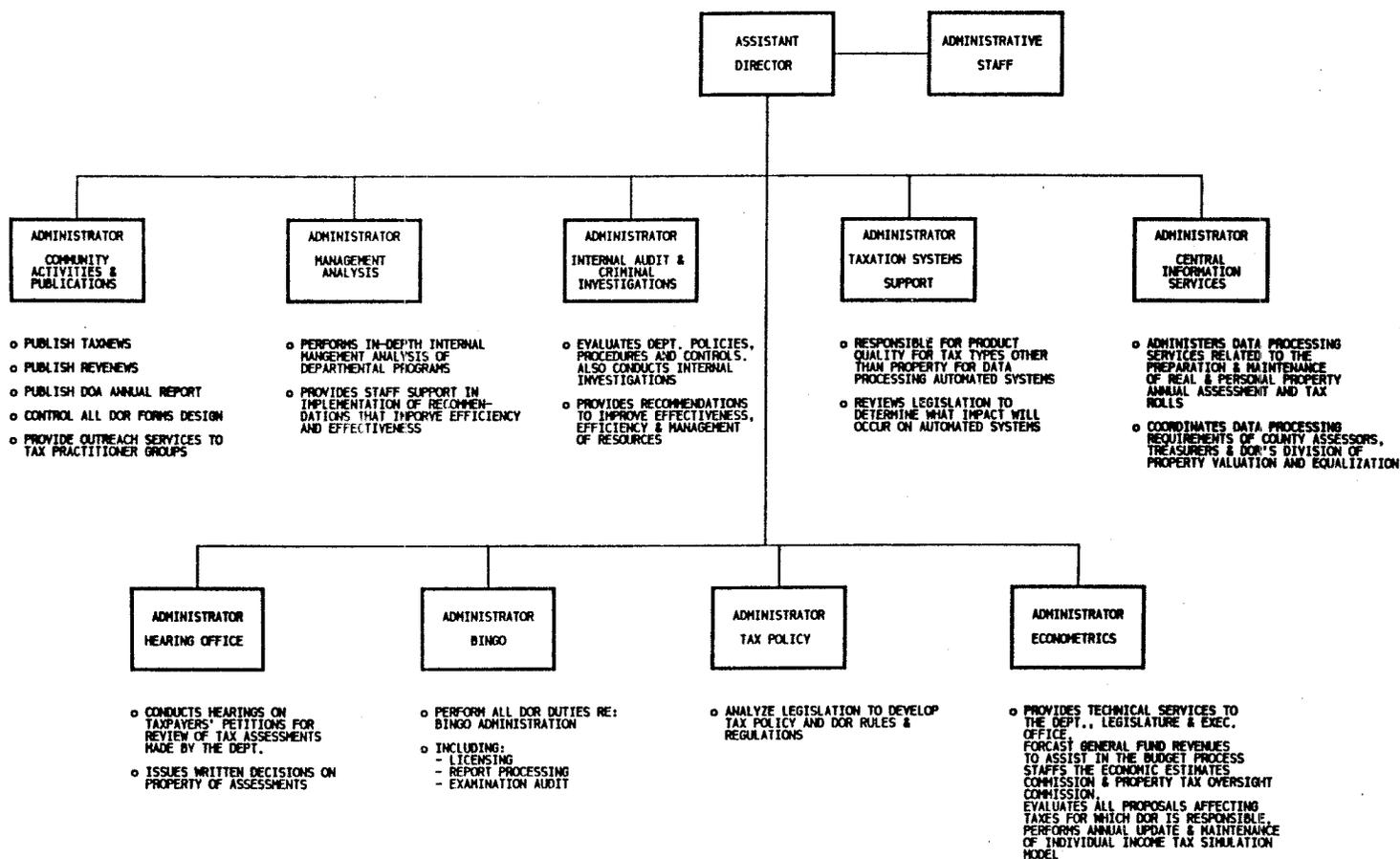
DOR - 99

EXHIBIT 40

STATE OF ARIZONA
DEPARTMENT OF REVENUE
OVERSIGHT & ANALYSIS
PRESENT ORGANIZATIONAL STRUCTURE

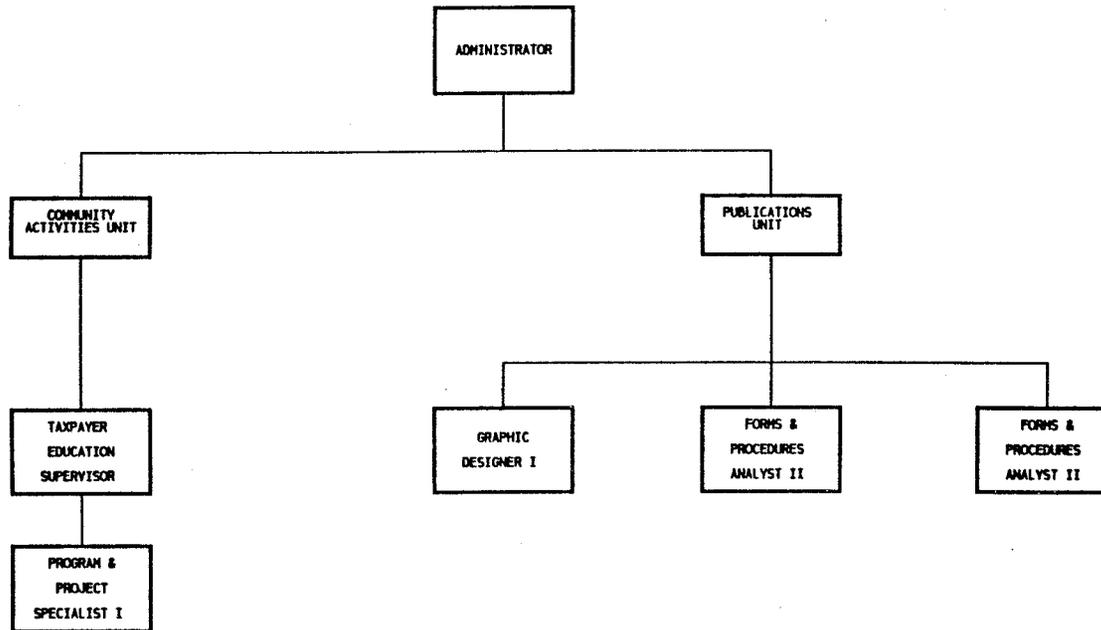
EXHIBIT 41

DOR - 100



STATE OF ARIZONA
DEPARTMENT OF REVENUE
OVERSIGHT & ANALYSIS
COMMUNITY ACTIVITIES AND PUBLICATIONS SECTION
PRESENT ORGANIZATIONAL STRUCTURE

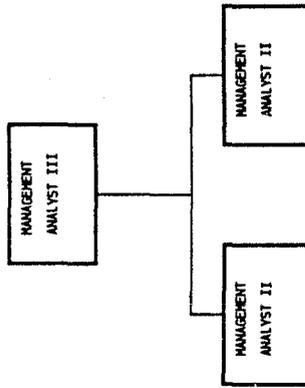
EXHIBIT 42



DOR - 101

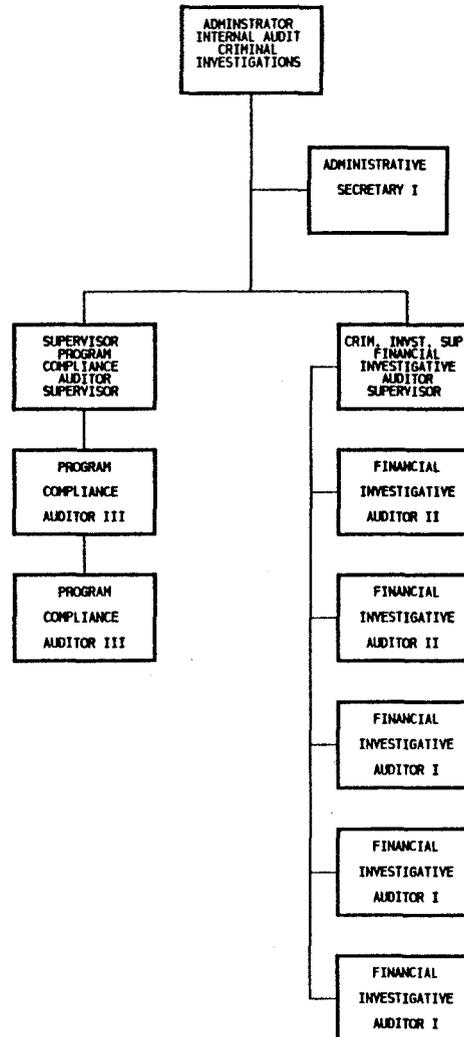
EXHIBIT 43

STATE OF ARIZONA
DEPARTMENT OF REVENUE
OVERSIGHT & ANALYSIS
MANAGEMENT ANALYSIS
PRESENT ORGANIZATIONAL STRUCTURE



STATE OF ARIZONA
DEPARTMENT OF REVENUE
OVERSIGHT & ANALYSIS
INTERNAL AUDIT/CRIMINAL INVESTIGATIONS
PRESENT ORGANIZATIONAL STRUCTURE

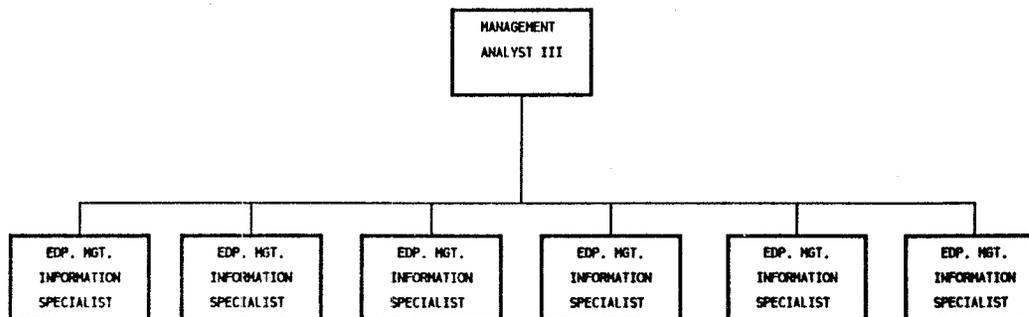
EXHIBIT 44



DOR - 103

STATE OF ARIZONA
DEPARTMENT OF REVENUE
OVERSIGHT & ANALYSIS
TAXATION SYSTEMS SUPPORT
PRESENT ORGANIZATIONAL STRUCTURE

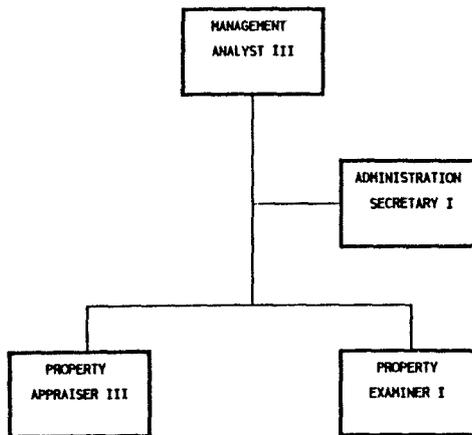
EXHIBIT 45



DOR - 104

STATE OF ARIZONA
DEPARTMENT OF REVENUE
OVERSIGHT & ANALYSIS
CENTRAL INFORMATION SERVICES (CIS)
PRESENT ORGANIZATIONAL STRUCTURE

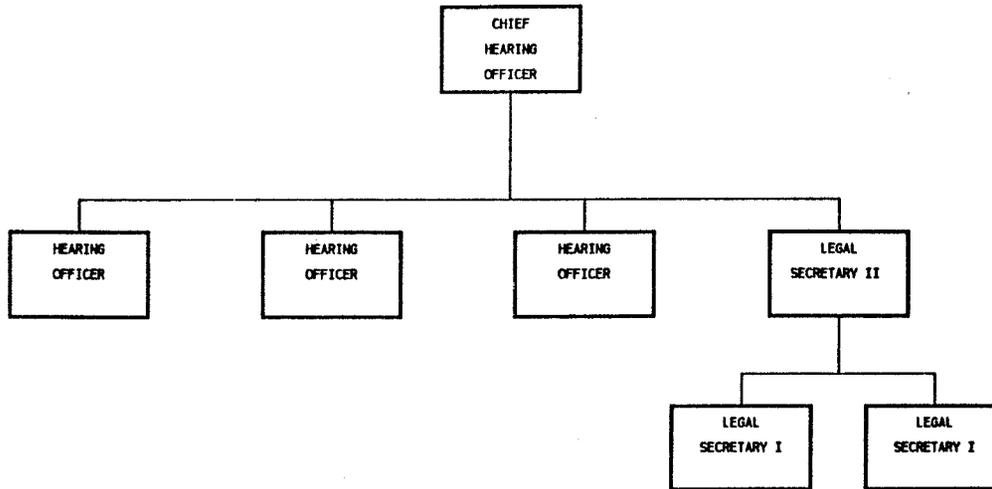
EXHIBIT 46



DOR - 105

STATE OF ARIZONA
DEPARTMENT OF REVENUE
OVERSIGHT & ANALYSIS
HEARINGS OFFICE
PRESENT ORGANIZATIONAL STRUCTURE

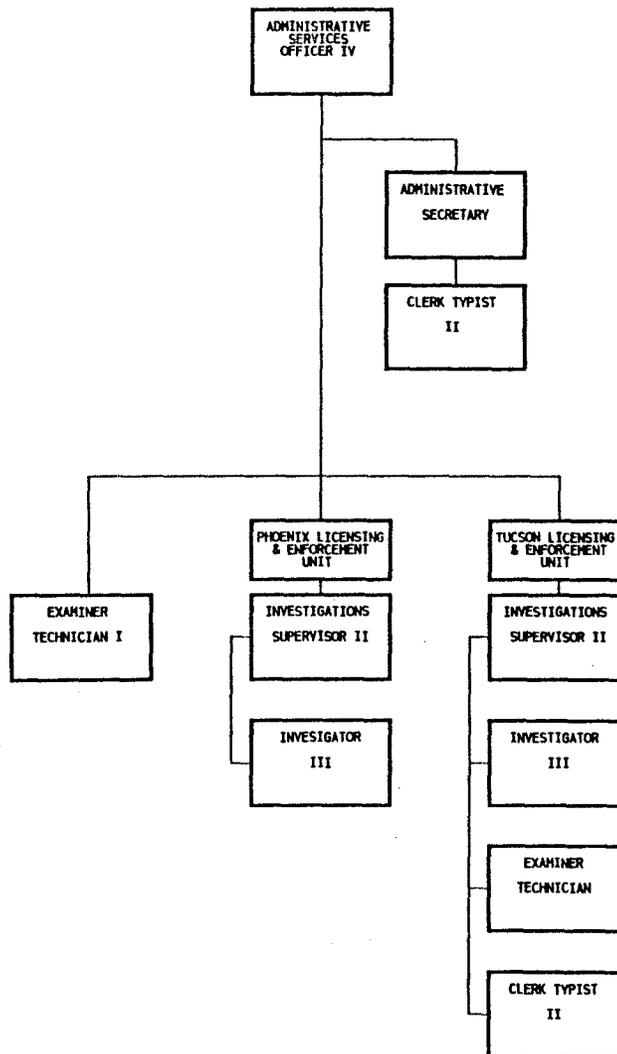
EXHIBIT 47



DOR - 106

STATE OF ARIZONA
DEPARTMENT OF REVENUE
OVERSIGHT & ANALYSIS - BINGO SECTION
PRESENT ORGANIZATIONAL STRUCTURE

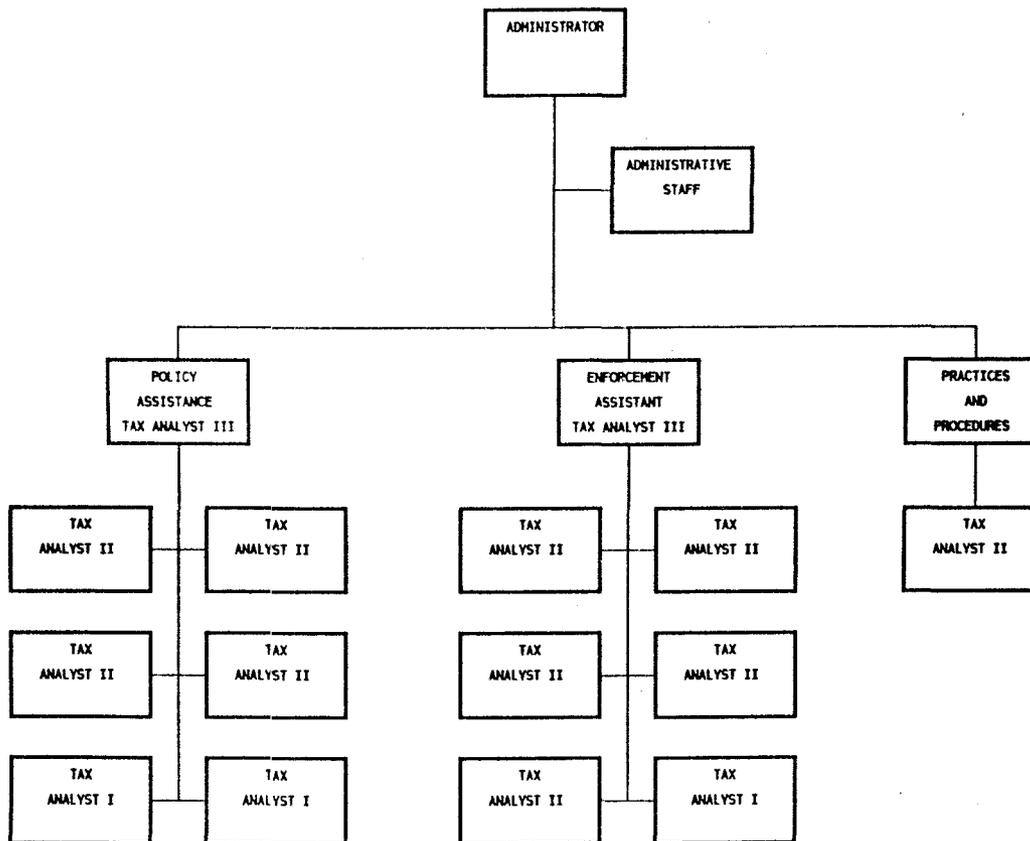
EXHIBIT 48



DOR - 107

STATE OF ARIZONA
DEPARTMENT OF REVENUE
OVERSIGHT & ANALYSIS
TAX POLICY SECTION
PRESENT ORGANIZATIONAL STRUCTURE

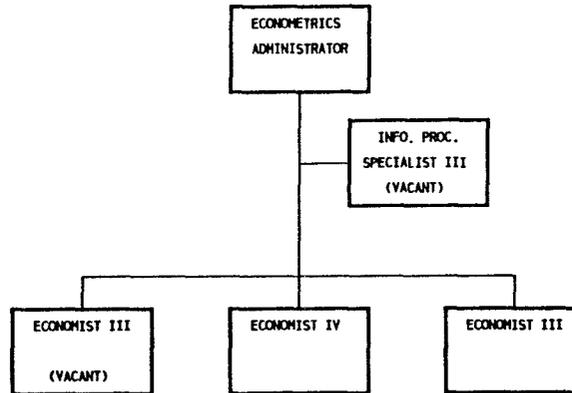
EXHIBIT 49



DOR - 108

STATE OF ARIZONA
DEPARTMENT OF REVENUE
OVERSIGHT & ANALYSIS
ECONOMETRICS SECTION
PRESENT ORGANIZATIONAL STRUCTURE

EXHIBIT 50



DOR - 109