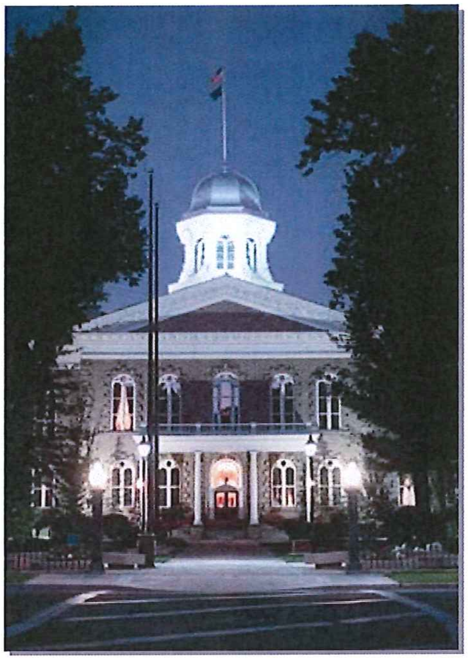


State of Nevada
Department of Administration
Division of Internal Audits

Audit Report

Department of Taxation
Audit and Collection Processes

Report No. 12-01
May 2012

EXECUTIVE SUMMARY
Department of Taxation

Objective 1: Can the Department Enhance Audit Coverage?

The Department can enhance audit coverage by improving its method of selecting audits and applying risk assessment results more uniformly. Review of sales tax audits performed in calendar year 2010, revealed the Department selected few of the businesses it deemed to be the highest risk. Our survey of six other states revealed they all use risk assessments to select sales tax audits. In our 2004 audit of the Department, state surveys showed using risk to identify potential taxpayer audits consistently outperforms other methods. It also found Michigan increased its violation findings 10 percent by converting to a method of selecting taxpayer audits based on risk.

The Department's risk assessment should have taxable sales as a major component when selecting audits. The Department's records indicate that as reported taxable sales increase, so does the number of errors in dollars reported. However, the Department's audit selection process does not emphasize taxable sales. Three other states we surveyed use taxable sales as the primary risk component for selecting audits. In addition, the federal government uses revenues (income) as one of the major components of their audit selection process.

The Department's risk assessment contains errors and should be updated. The Department assigns businesses an industry code in its risk assessment weighting. Industry code is defined using the North American Industry Classification System (NAICS). We reviewed the Department's listing of businesses with NAIC codes for fiscal year 2011 and found approximately 50 percent of the businesses had wrong industry type and/or wrong weighting per its policies. This results in distorting the Department's risk assessment. In addition, the Department's policy is to classify industries using the NAIC code as either high or low risk. We examined the top 30 average assessments and determined that only 8 out of 30 (27 percent) came from industries noted as high risk industries.

Upon updating the risk assessment and applying it statewide, the Department should then evaluate where to allocate audit resources. Our review of the average number of audits and assessments in each district office shows a wide disparity in the number of audits performed and amount of non-compliance assessments. Depending on the results of the risk assessment, the Department should consider reallocating staff to areas that provide the highest benefits to the State.

Objective 2: Can the Department Improve Collections?

The Department should evaluate the cost benefit of pursuing cases staff do not regularly work. Staff work tax debts and delinquent returns for taxpayers owing $500 or more. The Department's automated system sends correspondence to taxpayers with debts or delinquent returns of less than $500. In addition, the Department has delinquencies with unknown amounts which result when it cannot estimate the amount owed based on prior returns. Because these smaller debts, delinquencies, and delinquencies with unknown amounts represent over 90 percent of its cases, the Department should consider staff working a sample of each and evaluate the cost benefit on an hourly basis. Then the Department should determine which types of cases staff should pursue.

The State has an opportunity to collect more revenue. According to the Department, it has on average 3,481 cases per revenue officer. Our survey of other states disclosed they prioritize the cases to be worked and use collection agencies to increase collections. The Office of the State Controller contracts with collection agencies to assist in collecting debts owed to the State. While the Department has transferred some debts to the Office of the State Controller for collection, it should continue to evaluate which debts to transfer and send those accounts accordingly.

Taxes and Fees Collected by the Department

Department of Taxation Response and Implementation Plan

Timetable for Implementing Audit Recommendations

INTRODUCTION

At the direction of the Executive Branch Audit Committee, we conducted an audit of the Department of Taxation (Department). Our audit addressed the following four questions:

- ✓ What is the Department's role?
- ✓ What services must the Department provide?
- ✓ Is the State the proper level of government to provide these services?
- ✓ If State government is the appropriate level of government, is the Department carrying out its duties efficiently and effectively?

Our audit focused on whether the Department can enhance its audit coverage and collection processes.

Department's Role and Public Purpose

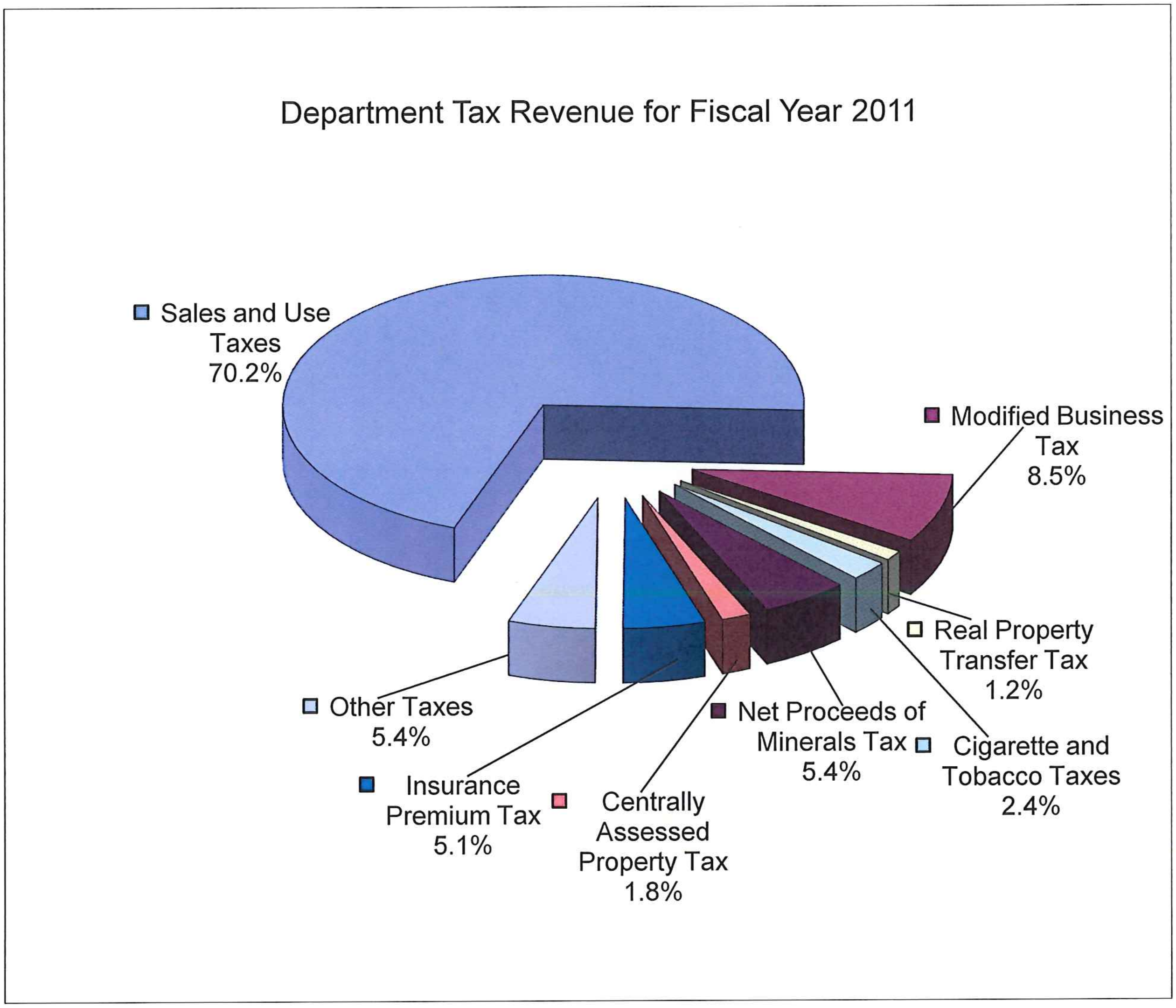
The Department administers Nevada's tax programs as required by statutes, regulations, and policy. The Department's functions include establishing property tax assessment guidelines for counties, conducting audits, collecting, and distributing taxes and fees.

The Department maintains four office locations. The headquarters is located in Carson City, with district offices in Henderson, Las Vegas, and Reno. In addition, the Department has auditors located outside Nevada. These auditors perform audits of mainly large businesses headquartered in other states that conduct business in Nevada.

Pursuant to Nevada Revised Statutes (NRS) the Department collects 19 types of taxes and fees,[1] including: sales and use, insurance premium, net proceeds of minerals, lodging, real property transfer, and cigarette and tobacco taxes. Sales and use taxes make up 70 percent of the $4.5 billion in revenues administered by the Department in fiscal year 2011. See Exhibit I

[1] See Appendix A.

Exhibit I



Sales and Use taxes are defined as follows:

- Sales Tax – Statutorily imposed on the sale, transfer, barter, licensing, lease, rental, use or other consumption of tangible personal property in Nevada.
- Use Tax – Statutorily imposed on storage, use and other consumption in Nevada of tangible personal property when sales tax was not collected by the seller. Examples include purchases from out-of-state vendors through the internet or mail order.

For the purposes of this report, we focused on sales tax because use tax contributed less than 9 percent of all audit assessments for fiscal years 2010 and 2011.

The Department has five major divisions: Executive, Administrative Services/Fiscal, Information Technology, Assessment Standards, and Compliance, which consists of the Audit section and the Revenue/Collection section.

Compliance Division - Audit Section

This section ensures taxpayers comply with laws. The audit section's responsibilities include ensuring financial compliance with laws relating to all taxes the Department collects. Audit staff assist with taxpayer information and education, including proper reporting and recordkeeping requirements.

The audit staff performed 1,066 sales and use tax audits during fiscal year 2011. The Department reported net collections from sales and use tax audit billings were approximately $16 million during this period.

Compliance Division – Revenue/Collection (Collection) Section

The collection section collects taxes such as sales and use tax and modified business tax. In addition, this section is responsible for collecting taxes on debts and tax delinquencies. The Division also administers programs to discover unregistered businesses and find liquor and cigarette contraband. In addition, staff monitor accounts for compliance with statutes, reporting requirements and provide general taxpayer education.

Compliance staff also conduct investigations into anonymous tips regarding tax evasion. As the need arises, this division may approve payment plans, file liens, seize assets and may close a business as a measure of last resort. Additionally, the assets seized may be sold to meet tax obligations.

Budget and Staffing

The Department's budget for fiscal year 2011 was $26.6 million, of which $25.8 million (97 percent) was State general funds. The Department's staff consisted of about 328 full-time equivalent positions statewide. During the past 7 years, Department staffing changed as noted in Exhibit II below:

Exhibit II

Department's Staffing

Year	# of Employees
2005	324
2006	324
2007	324
2008	334
2009	334
2010	328
2011	328

Source: Department of Taxation

The State is the appropriate level of government to collect, audit, and distribute taxes and fees. The Department provides a centralized service for administering, collecting, and distributing taxes used to fund State agency programs, local governments, and schools. The State is in the best position to consolidate collecting, auditing, and distributing taxes, thus relieving taxpayers of multiple reporting responsibilities.

Scope and Objectives

We began audit work in June 2011. In the course of our audit, we interviewed officials from the Department and analyzed tax and accounts receivable reports generated by the Department. We reviewed NAIC[2] codes to ascertain business risks associated with different industries. We also reviewed Nevada Revised Statutes. Additionally, as part of our field work, we performed state surveys to gain an understanding of audit selection and collection procedures used by other taxing agencies. We concluded field work and testing in February 2012.

Our audit focused on the following objectives:

- ✓ Can the Department enhance audit coverage?
- ✓ Can the Department improve collections?

We performed our audit in accordance with the *Standards for the Professional Practice of Internal Auditing.*

The Division of Internal Audits expresses appreciation to the Department's management and staff for their cooperation and assistance throughout the audit.

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[2] North American Industrial Classification System.

Contributors to this report included:

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Executive Branch Auditor III

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Manager, Financial Management Section

Department of Taxation
Response and Implementation Plan

We provided draft copies of this report to Department officials for their review and comments. The Department's comments have been considered in the preparation of this report and are included in Appendix B. In its response, the Department accepted each of the recommendations we made. Appendix C includes the Department's timetable to implement our recommendations.

NRS 353A.090 specifies within six months after the Executive Branch Audit Committee releases the final audit report, the Administrator of the Division of Internal Audits shall evaluate the steps the Department has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The Administrator shall report the six month follow-up results to the Committee and Department officials.

The following report contains our findings, conclusions, and recommendations.

Can the Department Enhance Audit Coverage?

The Department can enhance audit coverage by improving its method of selecting audits. Once its method of audit selection is changed and implemented, consider reallocating staff to different locations. This would assist in ensuring compliance with tax laws.

For the purposes of this report, we focused on sales tax because use tax contributed less than 9 percent of all audit assessments for fiscal years 2010 and 2011.

Methods of Audit Selection

Pursuant to NRS 360.095(5), the Department must consider weighting *indicators of noncompliance* when selecting businesses to audit. These indicators are assigned numbers or attributes. Some of the attributes considered in this risk assessment are: whether the business' sales exceed $5,000, business start date, prior audit date, prior audit assessment, and type of industry. The Department developed a risk assessment matrix which weights noncompliance attributes and indicates the risk the business' tax return was in error.

The higher the number assigned to each risk attribute, the higher the likelihood of noncompliance. Therefore, businesses with the highest score are considered the highest risk and should be selected first.

Use Risk Assessment When Selecting Audits

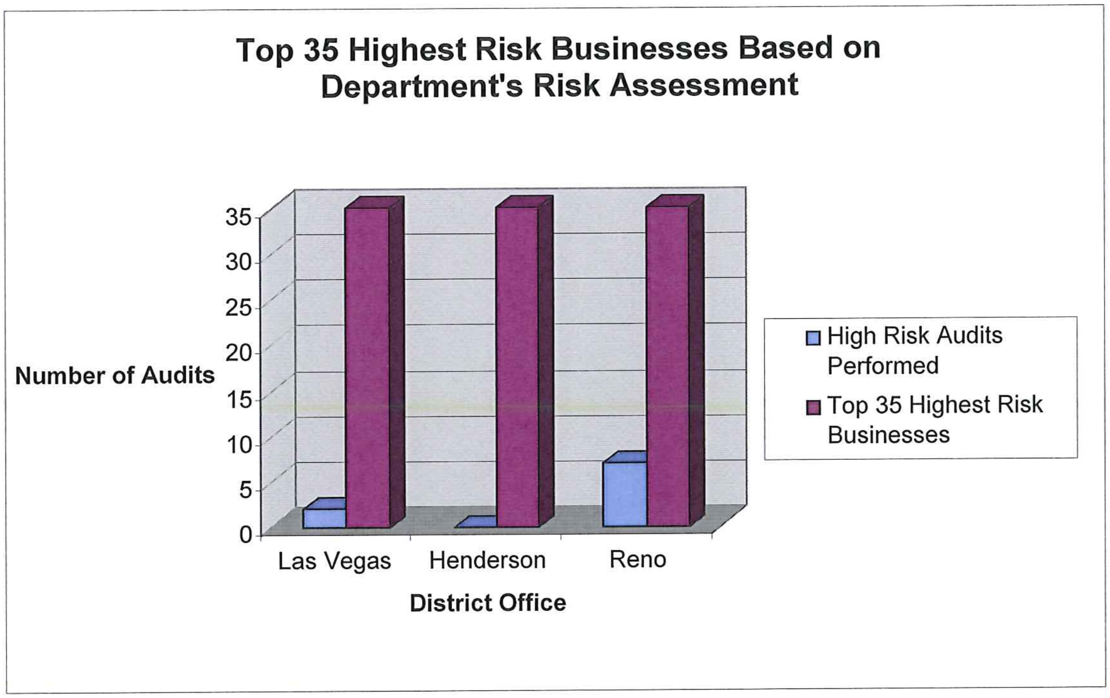
The Department represents it selects businesses to audit based on the following criteria:

- 5 percent are randomly selected,
- 45 percent are selected based on leads,[3] and
- 50 percent are selected based on risk.

[3] Leads are tips from the public or information uncovered by investigators regarding possible non-compliant tax reporting.

The Department is not adhering to the results of the risk assessment. Review of the sales tax audits performed in calendar year 2010, revealed the Department only selected a few of the businesses it deemed to be the highest risk. See Exhibit III.

Exhibit III



Department staff represent they use the following criteria to select audits when they are not pursuing audits based on leads or random selection:

- Individual supervisor's judgment – Audit supervisors use their own experience and judgment when selecting an audit.
- Smaller audits – Staff perform smaller audits to ensure a high penetration rate, which is one of its performance indicators.

Using the audit supervisor's judgment and pursuing smaller audits negates the use of risk assessment when selecting audits.

Our survey of six other states[4] revealed they all use risk assessments to select sales tax audits. In our 2004 audit of the Department, state surveys showed using risk to identify potential taxpayer audits consistently outperforms other methods. It also found Michigan increased its violation findings by 10 percent after converting to a method of selecting taxpayer audits based on risk.

[4] Colorado, Florida, Maryland, Michigan, South Dakota, and Washington.

Recommendation

1. Ensure risk assessment results are more uniformly applied when selecting audits.

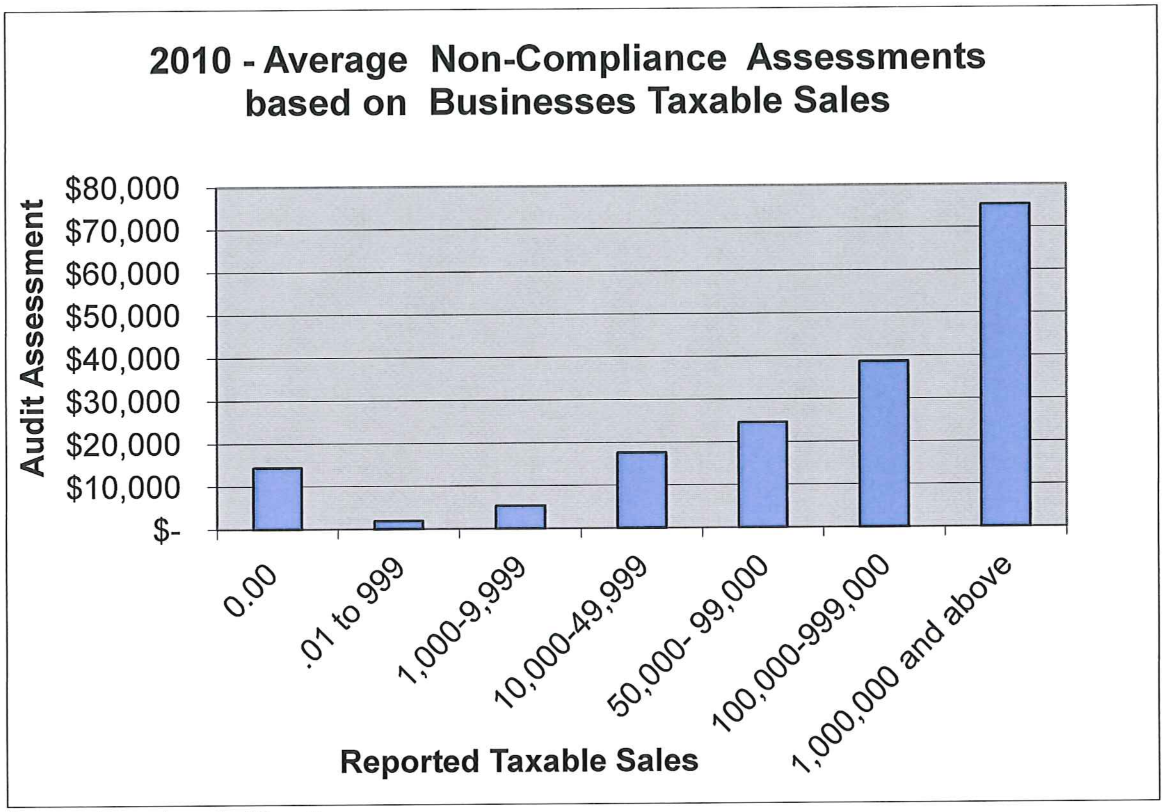
Enhance Risk Assessment

The Department's risk assessment should have taxable sales as a major component when selecting audits. Currently, about 9 percent of the weighting goes to businesses with over $5,000 in taxable sales. Other attributes of the risk assessment have higher assigned values. For example, business start date and prior audit assessments are assigned 22 percent each.

Taxable Sales

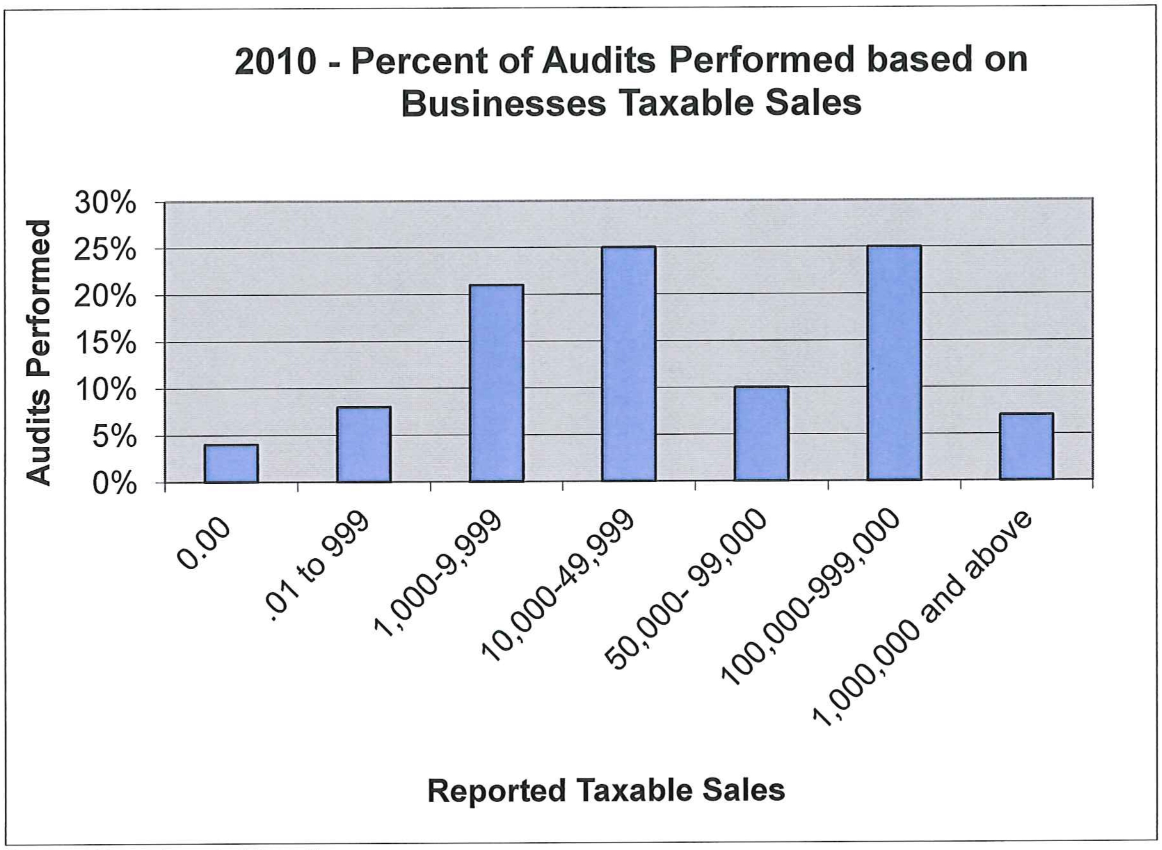
The Department should emphasize the amount of taxable sales as the primary risk component when selecting audits. As taxable sales increase, so does the number of errors in dollars reported. See Exhibit IV. However, our review of Nevada's audits based on taxable sales shows it has not emphasized higher taxable sales when selecting audits. See Exhibit V.

Exhibit IV



Source: Department of Taxation

Exhibit V



Source: Department of Taxation

We noted other states and the federal government use taxable sales and revenues (income) respectively as a basis for selecting audits. Our survey of three states[5] revealed their primary risk component is taxable sales. Additionally, review of the IRS audit weighting[6] shows they focus their audits on higher income individuals. See Exhibit VI.

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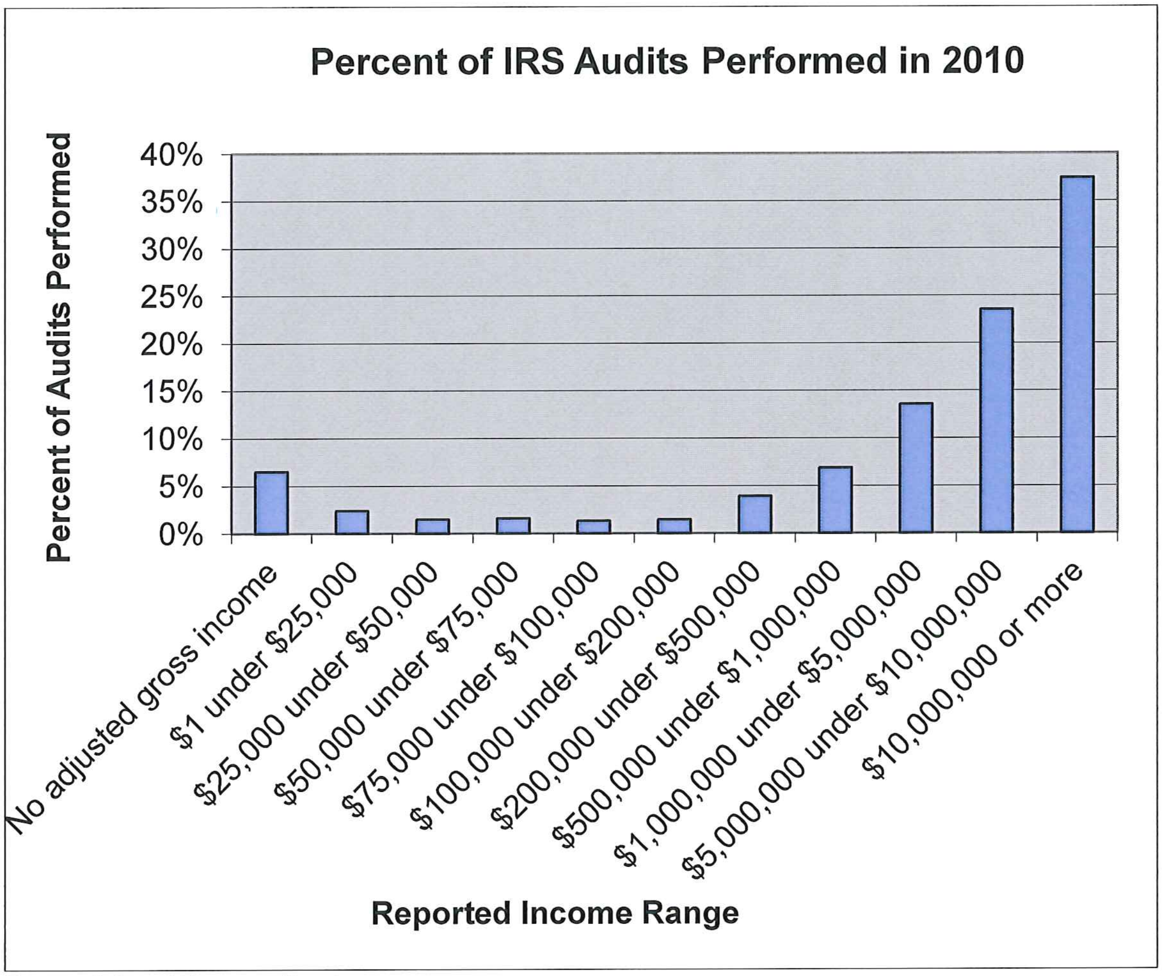
[5] Florida, Texas and Washington.

[6] The IRS risk assessment also includes leads on tax avoidance, large corporations, and computer scoring system.

Exhibit VI

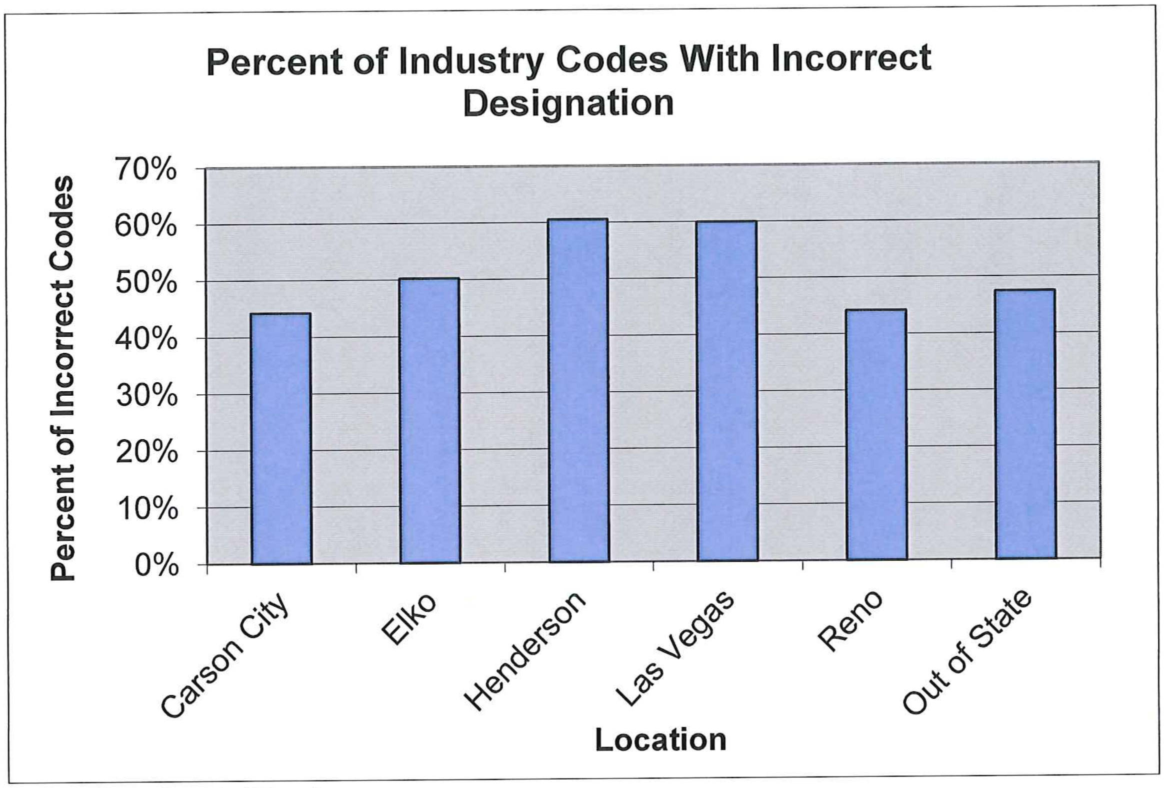


Source: Internal Revenue Service

Industry Type

The industry code for each business should be reviewed for accuracy. The Department uses the type of industry code in its risk assessment weighting. Industry type is defined using the North American Industry Classification System (NAICS) to categorize the businesses by an industry code number. We reviewed the Department's listing of businesses with NAIC codes for fiscal year 2011 and found approximately 50 percent of the businesses had wrong industry type and/or wrong weighting. For example, some businesses were assigned a miscellaneous industry code "999999". In addition, the Department sometimes did not follow its own industry weighting process. The Department's policy is to use two categories for assigning business type risk weighting as "high" or "low". The actual point value assigned for industry code is 6 for high and 1 for low risk. Our review found the Department sometimes used risk point values which ranged from -8 up to 20 and had no criteria for these values. This results in distorting the Department's risk assessment. See Exhibit VII.

Exhibit VII



Source: Department of Taxation

In addition, the Department should update what it considers high risk NAICS codes. The Department's policy is to classify industries using the NAIC code as either high or low risk. Using these classifications, we examined the top 30 average assessments and determined that only 8 out of 30 (27 percent) came from industries noted as high risk industries.

Recommendations

2. Use taxable sales as the primary risk weighting.

3. Ensure businesses have accurate NAIC codes.

4. Ensure weighting per industry code is accurate.

Consider Reallocating Staff

Upon updating the risk assessment and applying it statewide, the Department should then evaluate where to allocate audit resources. The risk assessment will identify where to locate staffing.

Based on our review of average number of audits and assessments, we noted a wide disparity in the number of audits performed and amount of non-compliance assessments. Depending on the results of the risk assessment, the Department should consider reallocating staff to areas that provide the highest benefits to the State. See Exhibit VIII.

Exhibit VIII

District Office Productivity

Fiscal Years 2009 and 2010		
District Office	**Average Assessment per Audit**	**Annual # of audits per auditor**
Henderson	$ 9,600	40
Las Vegas	$ 4,900	50
Reno	$ 567	29
Out of State	$ 18,600	36

Upon updating the risk assessment and evaluating resources, the Department should determine the number and location of out of state auditors. The Department has nine auditors located in seven different states. These auditors perform audits of mainly large businesses headquartered near where the auditor is located. Additionally, they may be assigned to do audits in other states based on factors such as leads and large credit (tax refund) requests. Exhibit IX lists the average taxable sales reported per state and the number of auditors assigned by the Department.

Exhibit IX

Average Taxable Sales by State and Location of Out of State Auditors

State	Avg. Taxable Sales (millions)	# of Auditors	# of Accounts
Arkansas	$ 297		37
California	$ 251	3	10,152
Illinois	$ 81	1	1,072
Utah	$ 80	1	1,352
Minnesota	$ 77		553
Texas	$ 77	1	1,713
New Jersey	$ 72		641
New York	$ 69	1	1,036
Ohio	$ 67		692
Washington	$ 66	1	848
Florida	$ 56		1,190
Georgia	$ 56	1	581
Arizona	$ 44		1,580
North Carolina	$ 34		365
Missouri	$ 30		403
Pennsylvania	$ 29		600
Michigan	$ 25		541
Virginia	$ 24		331
Tennessee	$ 23		315
Wisconsin	$ 23		376
Massachusetts	$ 21		440
Idaho	$ 20		414
Colorado	$ 19		683
Maryland	$ 14		314
Rhode Island	$ 13		88

Source: Department of Taxation

Recommendation

5. Upon updating the risk assessment, evaluate reallocating audit resources.

Can the Department Improve Collections?

The Department can improve collections by evaluating the cost benefit of pursuing cases staff do not regularly work. It can also improve collections by transferring additional debts to the Office of the State Controller.

The Department's Compliance Division's revenue officers are responsible for collecting tax debts and addressing tax delinquencies.

Tax Debts

Tax debts are established in a number of ways, including:

- Tax returns that are submitted without a payment,
- Tax returns that are submitted with errors in the calculations,
- Returned checks,
- Audit Assessments, and
- Late fees for returns not filed before the due date.

When a debt is established, a computer generated letter is sent to the taxpayers notifying them of the amount of the debt plus any late charges. If no payment is received within 30 days, a revenue officer is assigned to collect the tax debt. Tax debts are assigned by zip code. The revenue officers' usual first action is to contact taxpayers through phone calls and additional letters. If initial actions are unsuccessful, revenue officers issue a citation requesting the taxpayer meet with the revenue officer on a specific date to argue their case or pay the debt by that date. If this does not work, revenue officers can place liens on the taxpayers' businesses or garnish their bank accounts. The Department's Administrative Law Judge can revoke the taxpayers' seller's permit. Taxpayers can enter into agreements to submit partial payments at any time during this process.

Tax Delinquencies

In addition to tax debts, revenue officers work some tax delinquencies in their assigned zip codes. A tax delinquency results when a registered[7] taxpayer fails to file a return and submit a payment. The Department's computer system compares submitted returns to a list of registered taxpayers and identifies any that are delinquent. The Department estimates the amount of taxes due on delinquent returns based on prior returns received from the taxpayer. A

[7] NRS 372.220 requires every retailer that sells tangible personal property for storage use or consumption in Nevada to register with the Department for a Sales Tax Permit.

computer generated letter with the estimated amount is sent to the taxpayer.[8] If no prior returns have been received from the taxpayer, the Department cannot estimate the amount owed and the amount of the delinquency is unknown. Revenue officers can attempt to contact the taxpayer to determine if they should have submitted a return; for example, were they open for business and did they generate any taxable revenues.

The Department provided the following breakdown of case types per revenue officer. See Exhibit X below:

Exhibit X

Case Types per Revenue Officer

Case Type	Average Number of Cases per Revenue Officer
Tax debts and delinquencies ≥ $500	218
Tax debts < $500	1,586
Delinquencies < $500	496
Delinquencies - Amount Unknown	1,181
Total	3,481

Source: Department of Taxation

Revenue officers and an automated system work the majority of the Department's cases.

Cases Worked by Revenue Officers

The Department represents revenue officers work all tax debts and delinquencies of $500 and greater. The Department also states revenue officers work individual small debts and delinquencies which aggregate to over $500 per tax payer. This results in an average of 218 cases per revenue officer. The Department represents its goal is 250 to 400 cases per revenue officer. We surveyed other states and noted their revenue officers work between 150 to 400 cases.[9]

Cases Worked by the Department's Automated System

The Department's automated system works debts and delinquencies that do not aggregate to more than $500. System generated letters are sent to the taxpayer

[8] The letter states that the amount due is an estimate.
[9] States surveyed: New Mexico, South Dakota, Texas, Utah, and Washington.

informing them of the debt or delinquency. Generally, the letters are sent monthly until the taxpayer responds or the Department is notified that the address is no longer valid.[10] The smaller debts and delinquencies represent about 60 percent of the Department's cases.[11]

Delinquencies with Unknown Amounts

Delinquencies with unknown amounts result when the Department cannot estimate the amount owed based on prior returns. An example would be where a taxpayer registered with the Department for a sales tax permit, but never filed a return. According to Exhibit X, delinquencies with no estimated dollar amount represent over 30 percent of all cases.[12]

Sample Cases and Determine Which to Pursue

The Department should evaluate the cost benefit of pursuing cases staff do not regularly work. Staff do not regularly work smaller tax debts and delinquencies of less than $500. Delinquencies with unknown amounts, also are not regularly worked by staff but could have substantial revenues associated with them. The Department's northern office uses other staff to determine if any taxes are due for delinquencies with unknown amounts. They reduced the number of these delinquencies by more than 50 percent over the past year. However, the Department did not track how much revenue was recovered or the cost to do this. Due to the number of smaller debts, delinquencies, and delinquencies with unknown amounts, the Department should consider working a sample of these cases and evaluate the cost benefit on an hourly basis. Then the Department should determine which types of cases staff should pursue.

Recommendations

6. Sample debts and delinquencies of less than $500 and delinquencies with unknown amounts.

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[10] An exception exists when a taxpayer has a delinquent return but files timely on all subsequent returns. In this case, only one letter is sent for the delinquent return (the one-time delinquency) and no additional follow-up letters are sent unless the taxpayer fails to file again. When this occurs, the system sends another letter notifying the taxpayer of both delinquent returns. Per the Department, one time delinquencies are treated as a delinquency with an unknown amount.

[11] From Exhibit X: 1,586 (tax debts less than $500) plus 496 (delinquencies less than $500) divided by 3,481 (total cases per revenue officer).

[12] From Exhibit X: 1,181 (delinquencies with unknown amounts) divided by 3,481 (total cases per revenue officer).

7. Based on sample results, determine the cost benefit of pursuing smaller debts and delinquencies, and delinquencies with unknown amounts.

8. Determine which types of cases to pursue.

Determine Debts to Transfer to the Office of State Controller

The State may not be obtaining as much tax revenues as it could. The Department does not use collection agencies to assist in collecting taxes. As shown in Exhibit X the Department has 3,481 cases per revenue officer. States we surveyed represented they prioritize cases to be worked by their revenue officers.[13] They use collection agencies to assist with other cases and increase collections.

An opportunity exists to enhance collections. The Office of the State Controller (Controller) contracts with collection agencies that could assist in collecting some of the debt owed to the Department. Since July 2009, the Department has transferred over $11 million in debt to the Controller which represents 4.4 percent of total debts owed to the Department; 97 percent of these were 120 days or older. The Department should continue to evaluate which debts to work and which to transfer to the Controller.

Recommendations

9. Continue to evaluate which debts to transfer to the Controller for collection.

10. Transfer additional debts to the Controller.

[13] South Dakota, Texas, and Utah.

Appendix A

Taxes and Fees Collected by the Department

Revenue	2009-2010	2010-2011	Increase/ (Decrease)	Percent Change
Sales and Use Tax	$ 757,594,646	$ 798,436,167	$ 40,841,521	5.39%
Local School Support Tax	968,975,242	1,030,787,113	61,811,871	6.38%
City/County Relief Tax	840,943,521	893,197,185	52,253,664	6.21%
Local Option Taxes	401,635,601	419,684,048	18,048,447	4.49%
Intoxicating Beverage Taxes	42,571,891	43,826,696	1,254,805	2.95%
Cigarette Tax and Fees	101,211,667	98,251,831	(2,959,836)	-2.92%
Other Tobacco Products	9,574,952	10,039,228	464,276	4.85%
Estate Tax*	103,739	116,964	13,225	12.75%
Lodging Tax	111,513,747	128,203,856	16,690,109	14.97%
Net Proceeds of Minerals Tax	168,695,319	242,605,014	73,909,695	43.81%
Centrally Assessed Property Tax	84,987,619	79,314,307	(5,673,312)	-6.68%
Business Tax	8,381	13,710	5,330	63.59%
Insurance Premium Tax	227,959,135	227,943,702	(15,433)	-0.01%
Tire Tax	1,655,033	1,747,248	92,215	5.57%
Government Services Fee	45,258,487	51,039,985	5,781,498	12.77%
Bank Excise Tax	3,378,900	3,074,089	(304,811)	-9.02%
Business License Fee	4,417,943	335,542	(4,082,401)	92.41%
Live Entertainment Tax	11,475,519	12,099,287	623,768	5.44%
Modified Business Tax	385,119,708	381,940,643	(3,179,065)	-0.83%
Real Property Transfer Tax	53,315,435	51,552,368	(1,763,067)	-3.31%
Total	$4,220,396,485	$4,474,208,983	$253,812,498	6.01%

* No longer Applicable

Source: Department of Taxation.

Appendix B

Department of Taxation
Response and Implementation Plan

STATE OF NEVADA
DEPARTMENT OF TAXATION
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Fax: (702) 486-3377

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MAR 15 2012
DIVISION OF INTERNAL AUDITS

March 13, 2012

Department of Administration
Division of Internal Audits
209 E Musser St, Suite 302
Carson City, NV 89701

To Whom It May Concern:

1. Ensure risk assessment results are more uniformly applied when selecting audits.
   a. The Department has revised its risk selection method to ensure it uniformly applies the risk assessment. Risk will be applied to both in-state and out of state audits. A quarterly report will be generated for management showing the use of risk selection. **Implemented.**

2. Use taxable sales as the primary risk weighting.
   a. The risk weighting has been adjusted to use taxable sales as a primary weighting. **Implemented.**

3. Ensure businesses have accurate NAIC codes.
   a. We have reviewed risk assessment to ensure NAICs codes are appropriate. Note, we are unable to determine if the business selected the appropriate code, but can ensure there are no improper codes such as miscellaneous. – **Implemented.**

4. Ensure weighting per industry code is accurate.
   a. We have ensured the NAICs codes are accurate. **Implemented.**

5. Upon updating the risk assessment, evaluate reallocating audit resources.
   a. Upon updating the risk assessment, we will evaluate audit resources. We anticipate implementing this in the next fiscal year – **Implementation by July 2012.**

6. Sample debts and delinquencies of less than $500 and delinquencies with unknown amounts.

7. Based on sample results, determine the cost benefit of pursuing smaller debts and delinquencies, and delinquencies with unknown amounts.

8. Determine which types of cases to pursue.
    a. Recommendations 6-8. Based on historical experience, the Department has determined that working higher dollar cases will result in the highest collection benefit. Therefore, the Department will prioritize the largest dollar cases first. – **Implemented.**

9. Continue to evaluate which debts to transfer to the Office of the State Controller for collection.

10. Transfer additional debts to the Office of the State Controller.
    a. Recommendations 9-10. The Department is evaluating staffing caseloads. In an effort to reach an optimal caseload per Revenue Officer, we will stratify cases and types of collection efforts. The objective will be to have staff working the high dollar cases, while using an automated process, the Controller's office, and non-collection staff to work lower dollar cases.

These recommendations will be **implemented by August 2012.**

Sincerely,

William Chisel,
Executive Director
Department of Taxation

Appendix C

Timetable for Implementing Audit Recommendations

In consultation with the Department, the Division of Internal Audits categorized the ten recommendations contained within this report as having a period of less than six months to implement. The Department should begin taking steps to implement all recommendations as soon as possible. The Department's target completion dates are incorporated from Appendix B.

Recommendations with an anticipated implementation period of less than six months.

Recommendations	Time Frame
1. Ensure risk assessment results are more uniformly applied when selecting audits. (page 9)	Mar 2012
2. Use taxable sales as the primary risk weighting. (page 13)	Mar 2012
3. Ensure businesses have accurate NAIC codes. (page 13)	Mar 2012
4. Ensure weighting per industry code is accurate. (page 13)	Mar 2012
5. Upon updating the risk assessment, evaluate reallocating audit resources. (page 15)	Jul 2012
6. Sample debts and delinquencies of less the $500 and delinquencies with unknown. (page 18)	Mar 2012
7. Based on sample results, determine the cost benefit of pursuing smaller debts and delinquencies, and delinquencies with unknown amounts. (page 19)	Mar 2012
8. Determine which types of cases to pursue. (page 19)	Mar 2012

Recommendations	Time Frame
9. Continue to evaluate which debts to transfer to the Office of the State Controller for collection. (page 19)	Aug 2012
10. Transfer additional debts to the office of the State Controller for collection. (page 19)	Aug 2012

The Division of Internal Audits shall evaluate the action taken by the Department of Taxation concerning report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Committee and the Department.