

# **2013**

## **Oregon Department of Revenue**

### **Presentation to the Joint Ways and Means General Government Subcommittee**

**Responses to Questions from Committee Members**

March 26, 2013



[www.oregon.gov/dor](http://www.oregon.gov/dor)



### **Please provide a detailed report of your response to criticisms in previous CAFR audits.**

We were cited in the Comprehensive Annual Financial Report (CAFR) for the years of 2010 and 2011 with ongoing weaknesses in unrecorded financial transactions (audit finding number 11-05), cash reconciliations not being performed (11-06), and knowledge and skills to perform assigned duties (11-07). In 2010, the audit identified ongoing weakness in the areas of taxes receivable (10-2) and controls for recording accounting transactions need improvement (10-3), and those were still issues in the 2011 audit.

During 2012, we hired a new lead accountant and due to reorganization the budget manager added the accounting unit to his duties.

The 2012 CAFR audit found no current-year deficiencies for the department and found that considerable progress had been made on previously identified areas of weakness:

- The audit found that taxes receivable/year-end financial reporting misstatements (10-2) had been corrected and reported the status “corrective action taken.”
- Controls for recording accounting transactions (10-3) have been improved, and the auditors reported the status as “corrective action taken.”
- The audit found no unrecorded financial transactions and reported the status “corrective action taken” for this area (11-05).
- Our staff had been working diligently to bring current all cash reconciliations, but two Treasury account reconciliations were still pending at the time of the 2012 audit. Since this is an area that was previously identified as a weakness, the auditors reported the status as “partial corrective action taken” (11-06). We have completed these account reconciliations and have updated processes and procedures to help ensure they are timely going forward. We made changes to our procedures and worksheets to improve accuracy and timeliness of future reconciliations.
- We are addressing deficiencies in knowledge and skills to perform duties (11-07) through training, additional formal accounting classes, cross training, and mentoring. In addition, we benefited from having staff who gained experience from the prior year’s activity. We have provided, and will continue to provide, the training and support necessary for the success of the Finance Section. This is an ongoing area of emphasis. The auditors reported the status as “partial corrective action taken” (11-07).

The department received the Gold Star Certificate for 2012 after a three-year absence. The Gold Star is awarded to state agencies that provide accurate and complete fiscal-year-end information in a timely manner.

## What is our return on investment for maintaining field offices in Oregon communities?

Our field operations include five full-service field offices in Bend, Gresham, Portland, Eugene, and Medford. Employees in these offices are responsible for:

- Enforcement of tax laws through audit and filing enforcement. Audits are performed on S corporation, C corporation, partnership, sole proprietor, or individual returns. We conduct filing enforcement on wage earners, self-employed individuals, businesses, and other entities.
- Collection of delinquent debt that requires advanced collection activities (such as license suspension, seizure of assets, etc.).
- Desk services such as taxpayer assistance.

As we continue to ramp up our web services and provide opportunities for taxpayers to conduct their business online, the need for a community presence remains because:

- Our local presence and enforcement efforts have an indirect impact on dollars that are voluntarily paid, further supporting our mission. According to a study done by the IRS, the indirect impact of enforcement is estimated at 11:1. This equates to \$11 that comes in voluntarily for every dollar that we bill. Oregon has not conducted a study to determine the indirect impact of our state-level enforcement efforts.
- Some people prefer face-to-face interaction, because of the sensitivity of information necessary to transact business with the Department of Revenue.
- Field employees know and understand the business in their local communities, which enables them to be more effective in their efforts to enforce tax laws.

Field office locations have been strategically selected to meet citizen access requirements and our enforcement business needs. An additional benefit of having field offices is that it also provides opportunities to expand our hiring pools into other communities throughout the state.

### **Field office statistics—July 1, 2011 through June 30, 2012**

#### Cost of Field Offices

Personal Services	\$	6.7 million
Services and Supplies	\$	1.0 million
Total	\$	7.7 million

Net Billings Set Up by Filing Enforcement Staff	\$	32.6 million
Net Billings Set Up by Audit Staff	\$	18.6 million
Dollars Collected by Field Revenue Agents	\$	7.5 million
Number of Customers Contacting Field Offices		55,000

## **Do you negotiate rates with Payment Service Providers?**

We contracted with our first payment service provider in 2005. We negotiated an industry standard convenience fee of 2.49 percent. This vendor was one of two that provided the same service at the same rate for the IRS. This vendor performed very well for many years and we were able to expand and accept credit card payments for additional tax types.

In 2012, we needed to renew our contract. We decided to open the service to multiple vendors, to both drive the convenience fee down and provide other benefits to taxpayers. These benefits included allowing more credit card brands (VISA, MasterCard, Discover, and American Express), PIN-less debit card transactions, and the potential for incentives like double or quadruple rewards points.

We completed an open request for proposal and selected two vendors. Each vendor offered different benefits to taxpayers and offered different convenience fees.

- Vendor A offered a convenience fee for credit cards at 2.35 percent and debit cards at \$3.95 per transaction.
- Vendor B offered a convenience fee for credit cards at 2.25 percent and debit cards at \$3.75 per transaction.

We ended up signing a contract with Vendor B.