

Agency Report
Department of Revenue
Collections and Cash Management

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Request: Acknowledge receipt of a report on the collection and cash management activities.

Recommendation: Acknowledge receipt of the report.

Analysis: Two budget notes in HB 5035 (2015) directed the Department of Revenue (DOR) to report as follows:

Budget Note #1

The Department of Revenue is to conduct detailed reviews of its enterprise cash management practices, debt cancellation and write-off practices, and audit selection processes, and report individually its findings on each to the Joint Committee on Ways and Means during the Legislative session in 2016. As part of these reports, the agency is to provide metrics on current performance and recommendations on statutory and administrative changes to increase revenue collection.

Budget Note #2

The Department of Revenue is to report to the Joint Committee on Ways and Means during the Legislative session in 2016 on its implementation of HB 2550 (2011), which allows the agency to enter into an agreement to recover non-tax debt owed the state or federal government.

DOR has provided the requested budget note reports. The one theme across all four reports is the implementation, or pending implementation, of the Core Systems Replacement project (CSR).

The enterprise cash management practices report details the processing time and volume of cash and non-cash transactions. Normal banking of cash and check payments outside of the height of tax season is 24 to 48 hours; however, after April 15, and for the following eight weeks, processing time for these payment types increases up to five weeks due to the volume of tax filings. The Processing Center System Modernization project will add electronic high speed scanners with a direct interface into the CSR GENTAX program. Once fully implemented, this project should improve processing timeframes. An increase in electronic payments for personal income tax filers would also help. Lastly, recreational marijuana cash receipts will be a major driving force in evaluating and improving the agency's cash management practices, albeit with significant challenges.

The debt cancellation and write-off practices report provides a clear delineation of statutory write-off and cancellation procedures of the agency. DOR estimates that 90% of debt is subject to collections, nine percent is subject to write-off, and one percent is subject to cancellation; however, approximately 10 to 20 percent of write-offs are later reinstated with four percent actually being collected. Most of the debt subject to write-off or cancellation is for tax years 2012 or earlier. After a

major initiative in 2013 to identify and categorize write-offs and cancellations and reduce accounts receivable to a more realistic level, DOR has returned to the practice of prioritizing collections over write-off and cancellation activities. DOR's report emphasizes that having accurate accounts receivables allows the agency to focus on more current debt collection. This allows for improved collectability due to a focus on newer cases. CSR will automate much of the collection, write-off, and cancellation processes, but that will not begin to occur until rollout three in the fall of 2016. Lastly, DOR has identified five potential account receivable initiatives, some of which will require statutory change: data matching with financial institutions; new hire reporting; public notification of delinquent debtors; reducing the write-off time period to less than three years; and more aggressive use of advanced collection activities, such as vehicle seizures, cash "till taps" to intercept cash receipts," and safety deposit box checks.

The audit selection process practically occurs within a two year period after the filing of a tax return. Audit selection is driven by a number of variables: resource or staffing levels; risk areas; audit complexity; expected adjustment ranking; diversity across filing types that seeks to improve voluntary compliance; and adjustments due to actual audit outcomes. Audit queries are then developed and cases prioritized. Audits are then assigned based on the experience of the auditor. Auditors have no discretion to self-select audits, but instead provide input into the audit query process. Results are then tracked along with the amount of time spent on each audit. The current process is mostly manual, except for corporate audits, which are benefiting from the CSR, its discovery tool, and data warehouse. These same tools will start to become available for personal income tax auditors due to the rollout of phase two of the CSR project; however, the data warehouse for both corporate and personal income tax returns will improve over time as more data becomes available in the warehouse. CSR will employ a similar audit selection process, but in a highly automated fashion, and in a single application platform environment.

HB 2550 (2011) Implementation

HB 2550 (2011) provided for reciprocal offset agreements between the State of Oregon and the federal government for liquidated tax obligations and allowed DOR to enter into an agreement to recover non-tax debts owed the state or federal government. Certain governmental payments going to debtors, such as vendor payments, could be withheld and used to pay the debt instead.

DOR signed an agreement with the U.S. Department of Treasury to start an Oregon State Reciprocal Program (SRP) in December of 2015. DOR has been participating with the Treasury Department's State Income Tax Program since 2002. The CSR is being configured for the SRP, but that will not begin to occur until roll-out three in the fall of 2016.

Recommendation

The Legislative Fiscal Office recommends acknowledging receipt of the report.