

**COMMISSION ON ENHANCING AGENCY OUTCOMES  
SUMMARY SHEET**

**Department of Revenue Services Audits, Collection and Enforcement (#39)**

**Staffing in DRS Audit and Collections and Enforcement.** There are currently 362 employees in both the Audit and Collection and Enforcement (C&E) Divisions at the Department of Revenue Services. The information provided by DRS and contained in the Office of Legislative Research Issue Brief attached shows that in FY 10 there are 22 fewer staff in the Audits Division and 5 additional staff in the Collection and Enforcement Division, following the Retirement Incentive Program of 2009. As Table 1 below indicates, there has been a total reduction of 17 staff in the two divisions.

Table 1. DRS Audit and Collection and Enforcement Employees			
	Audit	C&E	Total – Both Divisions
Pre-RIP	301	78	379
Post-RIP	279	83	362

Source: DRS

**Productivity of DRS Audit and C&E divisions.** Despite the reduction in staff in the audit division, there has been an increase in the total number of audits conducted as well as the total dollar amount assessed (see Table 2 of OLR report). While the table indicates a 4 percent reduction in the dollars assessed per audit (\$437), by other measures there has been an increase in staff productivity of about 16 percent. For example, with the reduced staff, each auditor conducted 156 audits in FY 10, compared with 135 audits conducted in FY 09. Also, the amount of tax assessments per auditor rose from \$1,590,286 in FY 09 to \$1,759,383 in FY 10, an increase of nearly \$170,000 each (10.7%).

Because of appeals and negotiated settlements, not all dollars assessed are ultimately collected. The last two years' experience shows between 25 and 30 percent of assessed amounts are collected. (CEAO staff examined prior years' collections to assessments and this is typically the percentage range).

The Collections and Enforcement Division increased its staff by 5 after the RIP – from 78 to 83 (6%). However, the total amount collected increased by 21 percent from \$122.2 million to \$148.1 million.<sup>1</sup> This translates to about \$1.57 million per C&E Division staff in FY 09 to \$1.76 million in FY 10 (with the private collections subtracted), an increase of \$190,000 per DRS staff. It appears that this increase in productivity or collection outcomes may be due to greater use of selected methods of enforcement. For example, arrests more than doubled from FY 09 to FY 10, and the use of tax warrants to attach wages and other income increased by about 60 percent.

**Increasing revenue collection with additional staff.** Of course, C&E staff can only collect on what auditors assess. Therefore, increasing revenue to the state through increasing tax

<sup>1</sup> According to DRS, \$1.85 million of that was collected by a private collection agency. The agency is paid on a contingency basis, and was paid \$248,161. However, private collection agencies do not have all enforcement tools available (tax warrants, arrests) that DRS C&E agents do.

collections requires both steps, and adding staff in both areas would likely be necessary to produce increased revenues. If five staff auditors and five additional collections and enforcement personnel were added to the divisions, for example, CEAO staff estimates that **net revenue could be increased by approximately \$1 million to \$4 million** a year, depending on assessments and collections results. The calculations for the estimates are described below.

### **Estimated Savings Calculations**

The more conservative estimate was determined as follows: In FY 10, the number of audits completed per auditor was 135 (the lower number was used since the newer auditors would probably not be able to complete the higher number, at least initially) and the average amount assessed per audit was \$11,301 that would mean an additional \$7,628,175 could be assessed. If a 30 percent collection rate were achieved, then revenues would increase by \$2.3 million. After subtracting for the cost of new staff -- \$1,271,632 (includes salaries and fringe) the net revenue would be \$1,016,820.

The higher revenue estimate assumes assessments per auditor of about \$1.8 million (the FY 10 results). If that were multiplied by the 10 additional staff, with a total increase in assessments of \$18 million, and 30 percent of that was collected, the result would be \$5.4 million in additional revenues. After the costs of additional staff are subtracted, the net revenue would be \$4.1 million.



# OLR RESEARCH REPORT

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## **OLR BACKGROUNDER: DEPARTMENT OF REVENUE SERVICES AUDIT AND COLLECTION AND ENFORCEMENT STATISTICS**

By: Rute Pinho, Associate Analyst

This report describes employment and audit and collection statistics for the Department of Revenue Services' (DRS) Audit and Collection and Enforcement (C&E) divisions. It updates OLR report [2009-R-0270](#) to include employment figures for both divisions before and after the 2009 retirement incentive program (RIP) and collection statistics for FYs 09 and 10.

### **DRS' AUDIT AND COLLECTION AND ENFORCEMENT DIVISIONS**

Table 1 shows the number of Audit and C&E division employees before and after the 2009 RIP. According to DRS, the divisions lost 29 employees due to the RIP. It refilled 11 of these positions and transferred an additional employee from within the agency, resulting in a current balance of 362 employees across both divisions, down from 379 before the RIP. DRS also transferred several audit employees to the C&E division due to an internal reorganization. As a result, there are currently 22 fewer employees in the Audit Division and 5 additional employees in the C&E Division.

Table 1: DRS Audit and C&E Employees

	<i>Audit</i>	<i>C&amp;E</i>	<i>Total Both Divisions</i>
Pre- RIP	301	78	379
Post- RIP	279	83	362

Source: DRS

## **Audit Division Statistics**

DRS' Audit Division determines the accuracy of tax returns. If, after an audit, it finds taxpayers have made errors or underpaid taxes owed, it imposes an assessment for unpaid taxes. Table 2 shows statistics on the number of audits and amount of unpaid taxes assessed in the past two fiscal years. In FY 09, the Audit Division conducted 40,780 audits with an average assessment of \$11,738. The division increased its audits by approximately 6.5% in FY 10 to 43,437, but the average assessment decreased by \$437 to \$11,301. Total assessments, however, increased 2.5%, from \$478.7 million to \$490.9 million.

Assessments can be appealed to the DRS' Appellate Division where they may be reduced. Thus, the assessments do not correspond to amounts collected.

Table 2: Audit Division Statistics, FYs 09 – 10

	<i>FY 09</i>	<i>FY 10</i>
Number of Audits	40,780	43,437
Total Audit Assessments	\$478,676,003	\$490,868,113
Average Assessment per Audit	\$11,738	\$11,301

Source: DRS

## **C&E Division Statistics**

DRS refers cases to the C&E Division after a delinquent taxpayer's appeals have been exhausted or appeal deadlines have expired. The revenue agents in this division use various means to collect the taxes owed, including:

1. establishing written, phone, or personal contact with taxpayers;
2. establishing payment schedules for taxpayers with unpaid tax liability;
3. placing liens on taxpayers' property and using tax warrants to attach wages and other income; and
4. making arrests as a result of criminal investigations by DRS enforcement personnel.

Table 3 shows C&E division statistics for FYs 09 and 10. As the table shows, revenue collections from FY 09 to FY 10 increased from \$122.2 million to \$148.1 million, a 21% rate of change. The division opened fewer criminal investigations, with 805 in FY 10 as compared to 976 in FY 09, but more than doubled the number of arrests from 179 to 398. It also increased the number of tax warrants issued by 60%, from 6,280 to 10,057. The number of permit suspension hearings remained relatively stable. (DRS issues permits to allow businesses to sell items subject to state sales and excise taxes.)

Table 3: C&E Division Statistics, FYs 09 – 10

	<i>FY 09</i>	<i>FY 10</i>
Criminal investigations opened	976	805
Arrests	179	398
Tax warrants	6280	10,057
Permit suspension hearings	838	845
Revenue collected	\$122,235,123	\$148,077,777

Source: DRS

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