

OVERVIEW OF THE DEPARTMENT

The Mission
of the
Arizona Department of Revenue

is

To promote voluntary compliance
with all tax obligations
through fair administration,
firm enforcement, and
prompt and courteous service
in a manner that justifies the highest degree
of public confidence
in our efficiency and integrity.

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Function Activities

ADMINISTRATIVE SERVICES

FUNCTION

ORGANIZATION

The mission of the Administrative Services Function is to provide efficient, quality and courteous service to our customers - both within and outside the Department. The function consists of the following three sections:

COMPTROLLER

The Comptroller is responsible for the financial management activities, including monitoring the handling of tax dollars within the Department.

FACILITY MANAGEMENT

Facilities Management is responsible for coordinating DOR facility maintenance and remodeling at the Department's five locations; receiving all goods and supplies purchased by DOR; security system maintenance and repairs; and issuance of DOR identification cards and building access. Central Supply is also part of the Facilities Management section with distribution of office supplies and internal forms.

PURCHASING

Purchasing is responsible for contracting and purchasing all goods and services required by DOR. This includes furniture and supplies, and printing of tax forms, tax booklets, business cards and envelopes. Purchasing is also responsible for contract management, vendor performance and compliance.

HIGHLIGHTS IN FY2000-01

- ◆ The Electronic Funds Transfer Unit added 3,549 new EFT filers and electronically processed approximately \$439.7 million more than in FY 00. The unit processed 291,204 payments totaling \$4.448 billion. This equates to 19.1% of the total withholding dollars received by the Department.

- ◆ The Electronic Funds Transfer Unit was instrumental in the implementation of the Direct Deposit program. We have issued over 127,000 direct deposits resulting in approximately \$42,000 in postage savings.
- ◆ The Comptroller's Office returned 6,171 warrants to taxpayers that had been returned to the Department for a better address.
- ◆ Facilities Management has recently purchased a CAD program and provided additional training to the Facilities supervisor. This has enabled the Department to print its own floor plans for the five facilities. Between May 1 and May 22, 2001, 160 hours were spent working on and updating the floor plans. If this same amount of time was spent by our current contracted vendor the cost would have been \$6,680.00, not including the printing of the floor plans.

COLLECTIONS FUNCTION

OFFICE COLLECTIONS

After the Accounts Receivable system has completed the prescribed billing cycle, cases are referred to Office Collections. Delinquents (business accounts with returns that have not been filed) are also worked in this section. Here, collectors attempt to reach account resolution via the telephone and with targeted mailings. The section uses a Predictive Dialer System (PDS) to dial the phone on accounts prioritized for work. This system automatically brings up computer screens of the account on calls made and routes them to the first available collector. Office Collections also uses an Automatic Call Distribution (ACD) system to process and handle incoming calls. This system has an Interactive Voice Response (IVR) module that provides automated responses for some basic collections questions such as account balances.

Office Collections is responsible for approximately 35% of Department enforced collections.

The section operates from 7:00 a.m. to 6:00 p.m. Monday through Thursday and from 7:00 a.m.-5:00 p.m. on Fridays.

Office Collectors can request liens and levies be filed and can negotiate installment payment plans. If they are not able to resolve a case, it is referred to Field Collections or Technical Compliance Services for further action.

FIELD COLLECTIONS

If an Office collector determines that a case cannot be resolved by phone and that a field (on site) approach is warranted, the case is referred to the Field Collections section. Field collectors are assigned a territory (by ZIP code) and are responsible for all types of tax cases (income, business, withholding, etc.) in their territory.

Field collectors use a combination of telephone and field visits to effect closure. In addition to recommending lien and levy action, Field collectors may subpoena records, work Offers in Compromise, recommend seizures and write off cases if they are determined to be uncollectible.

The objective in Field Collections is to reach closure in the least intrusive manner and seizure actions are only used as a last resort after all other more reasonable actions have failed.

Approximately 21% of collection receipts come from Field Collections.

BANKRUPTCY AND LITIGATION

Bankruptcy and Litigation services a growing population of individual and business tax accounts that have filed for protection under the bankruptcy code. Cases are routed here at any time during the collection process when a case is identified as having filed bankruptcy. This section is responsible for identifying all cases which involve bankruptcy filings, seeing that appropriate claims are filed and following up on actions being taken by the bankruptcy court relative to these accounts.

In addition to processing bankruptcies, the section refers cases to the Attorney General's Office that may require legal action to effect closure as well as processing Offers in Compromise.

Bankruptcy and Litigation is a new section established this year as part of the Collections Function reorganization due to its highly complex nature and growing inventories.

TECHNICAL COMPLIANCE SERVICES

The Technical Compliance Services (TCS) section is responsible for all other non-mainstream collection activities. These include cases referred to an outside collection agency in addition to handling disputed audit accounts, insufficient funds check collections, lien processing, case adjustments, Letters of Good Standing, levies on Department of Administration vendors, levies on contractor and insurance bonds and internal systems training.

The Department uses an outside collection agency to work the smaller dollar accounts in-state and to work out-of-state accounts that cannot be resolved in the other collections sections.

Technical Compliance Services has been reorganized this year without the bankruptcy duties since the bankruptcy inventory continues to grow. In addition to its varied duties, TCS performs the support role to the Collections Function.

DEBT SET-OFF

Debt Set-Off serves other state agencies by offsetting tax refunds to reduce debts to other state agencies and the courts. This program includes: qualifying agencies and courts for program participation, notifying agency participants and taxpayers when matches are made, monitoring status of and validating claims, finalizing matches, resolving discrepancies and generating payments to agencies and/or releases to taxpayers.

Debt Set-Off was moved to the Collections Function as part of the recent reorganization because Debt Set-Off is considered collections activity.

REVENUES PER UNIT FOR THE THREE* ENFORCEMENT UNITS (FY 2001)

Office Collections.....	\$90,846,914
Field Collections.....	\$30,975,130
Technical Compliance Services.....	\$22,219,774

(*Bankruptcy and Litigation figures are included in TCS figures. Debt Set-Off figures were not tracked as enforcement figures in this Function.)

HIGHLIGHTS IN FY2000-01

- ◆ In spite of unusually high vacancy rates, the three collections programs succeeded in collecting a combined \$144,041,818 which was 4% more than they collected in FY 1999-00.
- ◆ At the same time, they worked to reduce the turn around time for processing Offers in Compromise to at or below 60 days. A total of 379 Offers were reviewed this year with 83% of them completed within 60 days of receipt.
- ◆ In addition, the call center in Office Collections maintained excellent customer service levels for all incoming calls by answering 98% of them within 30 seconds.

CUSTOMER SERVICE FUNCTION

COMMUNITY OUTREACH AND EDUCATION

Community Outreach and Education (CORE) provides the Department's outreach and education program for taxpayers and tax practitioners. CORE's primary goal is to promote voluntary compliance with tax laws through taxpayer education. The staff develops and presents workshops and seminars throughout the state. Coordination of the Department's speakers bureau helps to develop speakers' skills and provides speakers for events. In conjunction with the Internal Revenue Service and the state universities, tax seminars are held across the state. The CORE staff also coordinates the Department's cooperative effort with VITA (Volunteer Income Tax Assistance) and Tax Counseling for the Elderly.

LEGAL SUPPORT

This group is responsible for providing consultation on legal issues for operating units and technical legal correspondence. They are also responsible for form design and all artwork for the Department, and for creating and maintaining informational publications on a wide variety of tax issues, the TaxNews (practitioner newsletter) and the ReveNews (employee newsletter).

LICENSE AND REGISTRATION

The License and Registration section processes

applications for transaction privilege tax, use tax, severance tax, withholding tax and tobacco licenses and sells luxury tax stamps to tobacco licensees. In addition, the unit also issues transaction privilege tax licenses for contract cities that participate in the state tax collection program.

The section oversees a database of licenses and continually collects and updates taxpayer records, and provides assistance to the public through dissemination of general license information. They handle distribution of tax forms and cashiering services to customers at each of the agency's offices and administer the contractor-bonding program which affects some new contracting businesses and delinquent taxpayers.

The License Compliance group within the section performs research to identify non-complying businesses and bring them into compliance and provides education on licensing statutes and regulations to assist taxpayers in complying with the tax laws.

SPECIAL SERVICES

This group is made up of Unclaimed Property, Bingo and Special Audit. The Unclaimed Property section is responsible for processing unclaimed property submitted by holders (i.e. bank accounts, safety deposit boxes, etc.) and for conducting the research and advertising required to find the rightful owners in order to return their money, financial assets and property.

The Bingo section issues licenses and conducts audit examinations of Bingo entities. The section also investigates complaints and violations of the Bingo laws, as well as conducting compliance workshops to assist Bingo operators.

The Special Audit section conducts audits for estate tax, luxury tax and unclaimed property. The section administers the luxury tax (liquor and tobacco) and private car and airlines taxes.

TAXPAYER INFORMATION AND ASSISTANCE

Taxpayer Information and Assistance provides general information concerning business and individual income taxes administered by the

Department. This is accomplished through telephone contact, recorded tax information, correspondence and walk-in services at four Department locations. The section resolves taxpayer account problems and ensures that all billing inquiries and disputes are resolved in an accurate, courteous and timely manner.

In addition, the section is responsible for reviewing and making a determination on all taxpayer requests for penalty abatements, except for those relating to an audit. If the section determines that reasonable cause exists and abatement is warranted, the staff handles any necessary paperwork. If abatement is not warranted, the section represents the Department in subsequent hearings.

HIGHLIGHTS IN FY2000-01

- ◆ Over 22,000 claims for Unclaimed Property were processed, exceeding all prior years. Turnarounds were reduced from 85 days in FY2000 to 45 days.
- ◆ Taxpayer Information and Assistance section handled more than one million calls. The automated system, in its first full year of operation, handled 65% of the calls. Phone agents handled 45,000 more calls than the previous year.
- ◆ Turnaround times for processing correspondence were reduced from an average of 36 days last fiscal year to 20 days in FY2001.
- ◆ The License and Registration (L&R) Section improved service by reducing turnaround time to process license applications from an average 6.2 days in FY 2000 to 5.5 days. Turnaround time for processing account updates improved from 11.9 days to 3.8 days in FY2001.
- ◆ L&R protected 35% more tax revenues, with \$36.5 million in bonds submitted.
- ◆ The DOR web-site experienced a 60% increase in visitors.
- ◆ The Community OutReach and Education (CORE) Section recruited more volunteers for the TCE (tax counseling for the elderly) and VITA (volunteer income tax assistance) programs which serve low-income taxpayers.
- ◆ This is a cooperative venture with the Internal Revenue Service.
- ◆ CORE staff expanded informational programs with a new program called Town Halls for Taxes. This event was held at sites statewide to explain tax credits and other issues of interest to individual taxpayers. The team also instituted changes in the Tax Talk program for the Tax Practitioner community.
- ◆ The Bingo Section instituted a new database that helped to reduce turnarounds in processing of license applications, renewals and financial reports.
- ◆ The Bingo Section conducted three major investigations. Two of the cases resulted in arrests and convictions. Another is under consideration by the local prosecutors.
- ◆ Despite staff shortages, the Bingo staff was able to visit 50% of locations with class B & C licenses twice during the year.
- ◆ Turnaround time for processing of Estate tax returns was reduced from an average of 120 days to three days in FY2001.
- ◆ The Special Audit team, responsible for Unclaimed Property and Luxury Tax, completed 18.5% more audits.
- ◆ Unclaimed Property submittals increased by 18.4% for a total of \$38 million.
- ◆ Customer service surveys continued to yield excellent results with ratings that averaged 4.6 out of a possible score of five. Surveys allowed taxpayers to evaluate service, provide commentary on staff and processes and ultimately, point out possible areas for improvement.
- ◆ The Estate Tax Unit continues to provide timely customer service. The average processing time for Form 74 was just over seven business days for FY 2000. For FY 00, closing letters were issued on 1,662 estates. The unit processed 12,783 tax waivers on real property and other tangible personal property.

DIRECTOR'S FUNCTION

DIRECTOR'S OFFICE

The Director, responsible for the operation and control of the entire Department, ensures that the administration and collection of taxes are performed effectively, efficiently and in a fair manner, and that the Department provides the best possible customer service.

The Director has several direct reports including the two Deputy Directors who assist in the day-to-day operations of the agency and serve as the Acting Director when the Director is absent. The responsibilities of the Deputy Directors are divided into the Tax Administration Team and the Planning and Support Team.

The Tax Administration Team is responsible for the day-to-day operations of the basic tax administration functions of Customer Service, Collections, Property Tax Administration, Process Management, Income Audit and Transaction Privilege Tax.

The Planning and Support Team is responsible for the support services such as Information Technology, Administrative Services, Strategic Management, Human Resources, Hearing Office, Staff Organization and Development, Budget, Legislative Services and Office of Economic Research and Analysis.

The Deputy Directors also serve on the Leadership Team with the function executives and administrators to oversee resource allocation and policy determination and planning.

Other direct reports to the Director include the Problem Resolution Officer who expedites resolution of complex problems and situations for taxpayers, and the Internal Auditor who reviews internal processes and procedures used by the Department to ensure they maintain confidentiality and are secure.

TAX POLICY AND LEGAL SUPPORT

The Chief Tax Policy Officer oversees the Office of Tax Policy & Legal Support and provides coordinated policy and legal support for the

Department. The section consists of Criminal & Civil Investigations and Tax Research & Analysis.

Criminal & Civil Investigations is comprised of the Tobacco Enforcement, Criminal Investigations & Internal Investigations units of the Department. The Tobacco Enforcement unit enforces the tobacco luxury taxes by educating retailers and wholesale operations, inspecting premises for compliance with stamping requirements and monitoring compliance with tax laws. It also seizes luxury tax contraband and auctions seized products to properly licensed businesses to recover tax revenues.

The Criminal Investigations Unit handles criminal and civil investigations of tax evasion, improper or fraudulent tax activity and other related issues. The Internal Investigations unit investigates allegations of misconduct by Department employees and vendors.

Tax Research & Analysis reviews, analyzes, develops and disseminates information regarding the Department's interpretation of state tax laws. The section responds to technical and complex taxpayer inquiries, issues private taxpayer rulings, reviews and analyzes legislation, assists the Department in tax administration and develops and promulgates administrative rules.

OFFICE OF TAX ADVOCACY

The Chief Tax Advocate oversees the Office of Tax Advocacy which provides legal and interpretative support and case resolution and advocacy for the audit functions in the Department. The Office consists of the Contested Audit Resolution Section, The Corporate Income Tax Appeals Section, the Individual Income Tax Appeals Section and the Legal and Interpretative Support Team.

The Contested Audit Resolution Section is headed by the Deputy Chief Tax Advocate and assists the Transaction Privilege Tax Audit Function with case refinement and resolution services as well as advocating the Function's positions in cases before the State Office of Administrative Hearings, the Department's Hearing Office and the Director. The Section, primarily through the Chief Transaction Privilege Tax Counsel, also provides interpretative advice to the TPT Function.

The Corporate Appeals Section reviews cases from the Corporate Audit Section and provides case refinement, resolution and advocacy services for those cases. The Section also provides interpretive advice to the corporate audit staff.

The Legal and Interpretative Support Team is headed by the Chief Income Tax Counsel and provides legal and interpretative advice to both the Corporate and Individual Income Tax Audit Sections. The Team also provides advocacy services to the Income Tax audit Sections and represents the Sections in alternative fuel tax credit disputes.

OFFICE OF ECONOMIC RESEARCH AND ANALYSIS

The Office of Economic Research & Analysis provides technical services to the Department, the legislature and the executive offices, evaluating proposals regarding changes to any of the taxes administered by the Department. The section provides staff support to the Economic Estimates Commission, Debt Oversight Commission and Property Tax Oversight Commission. It maintains the income tax simulation models and prepares annual and ad hoc reports on tax revenue expenditures, bonding capacities and other tax revenue issues.

CHANGE MANAGEMENT

The Change Management unit is responsible for coordinating the Department's efforts for change management. It includes staff that functions as the Department's project managers for the BR/ITS project and other change projects such as the Strategic Plan, Training Evaluation and Remodeling, and the Baldrige Self Assessment. For the BR/ITS project, the Change Management Unit has drafted subject matter experts from across the Department to work with outside vendors in a discovery phase in preparation for proposal submissions. The unit will continue to draft expert employees to work with the selected vendor in the implementation phase over the next five years.

The unit also coordinates the strategic planning process, coordinating training for facilitators and implementation of the strategic planning tracking system.

The Strategic Management Function is responsible for four activities within DOR. They are Change Management, Budget Resource Planning, the Office of Quality, and Staff and Organizational Development. This unit was organized effective July 1, 2001 and was developed to lead the process for the Department reengineering project BR/ITS. (Business Reengineering and Integrated Tax System)

The Training Evaluation and Remodeling project is underway. This is the first comprehensive analysis of the Department's training program. It involves doing a needs assessment as to what training employees need. This will include training to do their day to day job as well as for career development and growth. The project will perform an evaluation of the methods to deliver training, considering in house staffing, Arizona State Government University training, vendor training for BR/ITS and any other available source of training. The team will then recommend a comprehensive training remodeling program to deliver the required training most effectively and to measure the success of the program.

The Budget Resource and Planning unit was previously the Planning and Budget Office (which included strategic planning). It is responsible for monitoring current year expenditures against the approved budget, coordinating preparation of the Department's biennial budget and providing staff and operating budget information and analysis to the Leadership Team.

The Office of Quality coordinates an agency-wide quality program including the Baldrige Self Assessment process. Due to budget constraints, this office is currently vacant and its role is being performed by Change Management staff.

The Staff and Organizational Development unit (SODS) provides the centralized training for the Department. It is supplemented by specialized training within functional areas and on-the-job-training (OJT). The unit has a self-managed team of trainers whose role is to develop in-house training for key activities such as using tax systems, ethics, supervisory training and confidentiality. The unit

offers both self-study classes and classroom training and coordinates with the Department of Administration training program.

HIGHLIGHTS IN FY 2000-01

- ◆ The biggest single activity of this unit was the release of the BR/ITS RFP (Request for Proposal). Four vendors qualified to develop proposals. This is the first large benefit-sharing project in Arizona State government. It is anticipated that this will be a five year project which will provide an integrated (hardware, software and telephony) system that will replace the current siloed tax systems and work processes.
- ◆ Round two of the Department strategic planning was completed. Round one began the process of involving every employee in the strategic planning process. We were recognized for our successes when the Department received the Governor's Spirit of Excellence Award for our strategic plan implementation.
- ◆ The Staff and Organizational Development Section (SODS) produced and provided the following new courses: Communicating Non Defensively, Creating and Developing Self Managed Teams, DOR On-line Purchasing, Project Management, Excel Spreadsheet Construction for TPT Auditors, Post 2000 Penalty and Interest/TPT, Microsoft Project-Module I, Advanced Software Users, Introduction to NT for temporary Employees, Non-violent Response to Threats and Assault, Strategic Planning, Creating Customer Surveys and Benchmarking.
- ◆ SODS provided other options for training such as creating six videos of classroom presentations for make-up sessions, converting Introduction to Withholding to a PowerPoint Training Class, creating a business series of videos for new contractors, producing a series of seminars at ASU for clerical staff and providing video support for both in-house and external events such as the Governor's Spirit of Excellence

award program. They also created, modified and continue to technically support the Bingo

INCOME AUDIT FUNCTION

Income Audit Functional area is comprised of two sections Individual Income Tax Audit (ITA) and Corporate Income Tax Audit.

Individual Income Tax conducts office audits of individuals and field audits of pass through entity returns.

Corporate Income Tax conducts both office and field audits on income tax returns of companies doing business in Arizona.

Although taxpayers may view a tax audit as an earth-shaking experience, the Income Audit Function (IA) views an audit as a cooperative and educational process that promotes voluntary compliance by ensuring that taxpayers pay the correct amount of tax - not more and not less. Passage of the Taxpayer Bill of Rights has reinforced the Department's view that auditors are charged with fairly determining whether the correct amount of tax has been reported and are responsible for performing audits in a professional and courteous manner with a minimum of disruption to the taxpayer.

The Function has supported BRITS, the Department's reengineering project, by providing subject matter experts and by encouraging staff participation in the discovery phase by our vendors. Section personnel have participated in numerous meetings and focus groups as part of the "as-is" evaluation of the Section. Our employees are looking forward to the changes that BRITS will bring to the Function.

The Fiscal Year was a year in which the Function was preparing for the changes in the way that we do business from the way that we perform our processes to the degree of involvement by employees. We believe that the staff's participation in the development of a strategic plan played a pivotal role in changing the way they perform their tasks by giving them the opportunity to make decisions and create a sense of pride by identifying where their

particular tasks fit into the overall Department's objectives.

HIGHLIGHTS IN FY2000-01

- ◆ Under the reorganization completed during the year, the Taxation Division became the Income Tax Audit Function. Although the primary activities of the staff didn't change, management and allocation of resources now come from the DOR Leadership Team. The Taxation Function is managed by a two-person team of administrators who take turns serving as the Function Executive.
- ◆ Customer service is an essential component of the Function and customer surveys are a vital source of information on service delivery. Both Sections of the Income Tax Audit function, Corporate and Individual, measure the customer service they provide by the ratings and comments received from taxpayers who have undergone an audit. During the year, both Sections mailed out a total of 24,405 Customer Surveys. On a scale of 1 to 5 (5 being excellent), scores averaged (weighted) 4.39, a 7% improvement over the prior year.
- ◆ During FY 2001, ITA continued its progress towards streamlining operations, automating functions and improving service to Taxpayers. The Section completed its decentralization by establishing self-sufficient regional offices that put decision making at the point of service. Line employees and managers are empowered and encouraged to make decisions locally. Eliminating a layer of management and increasing the span of control of local managers has flattened the organizational structure. Moving decision-making downwards not only empowers employees but also speeds service to our customers.
- ◆ ITA has initiated the process of automating a part of its audit inventory. The objective is to increase the timeliness and accuracy of the assessment process. This action was taken in response to information provided by taxpayers in surveys sent as part of the assessment process. The Section is also using technology to train and support employee decision-making by putting audit procedures and other information resources on the agency Intranet.
- ◆ ITA's field audit program has been very successful in identifying and correcting compliance problems with partnership and S-corporation filers. Rather than immediately assessing partners and shareholders as part of the entity audit process, auditors are asking that the passed-through income be reported on amended returns. By putting the responsibility of reporting the change on the taxpayer, we are insuring that the taxpayer understands the assessment and has learned something from the experience. This will encourage future compliance and supports the agency's goal of using education rather than enforcement to increase compliance.
- ◆ Due to improvements in ITA's inventory management and just plain hard work by auditors and support staff, auditor productivity rose for the fourth straight year, increasing by 7.2% over FY 2000. The audit production goal for the year was exceeded by over 1000 units.
- ◆ The Corporate Office Audit Unit has streamlined their databases to allow for a more timely, accurate and quality work product. The tracking of the multiple functions of the unit have been integrated into one database to eliminate duplication of information. Active cases are now being tracked through each step of the audit process to completion.
- ◆ To provide corporate taxpayers with a more understandable and informational audit package, the Corporate Field Audit Unit modified their computer audit program to include a summary sheet which more clearly delineates the changes and adjustments made by the auditors. Additionally, other improvements were made to the program to yield a user-friendlier package that allows the auditors to more quickly and easily move through the program to the worksheets needed.
- ◆ A joint program operated by the Corporate Office Audit Unit and the Processing Unit was enhanced to become more timely and accurate

when the Audit Unit modified the computer program to allow for automatic calculations for net operating losses, capital gains, federal income tax deductions and state income tax deductions. This improved “coversheet” program allows the Processing Unit to more easily and accurately process returns filed by corporate taxpayers. This yields a more timely issuance of tax refunds while reducing the processing time required.

- ◆ The Computer Audit Operations unit In Corporate developed a program that allows information from the mainframe tax systems to be downloaded directly into the PC-based programs and databases. This improved the accuracy and timeliness of the information and made the information more readily available to the auditors who require this information in the performance of the various audit programs operated in the section. Some uses of this program include assignment of audit leads and automatic uploads of information into the net operating audit program, the tax credit audit program and the Aims/Land project. The Aims/Land project is a joint project with the Internal Revenue Service where the final determination of contested audits is relayed to us via computer tapes.
- ◆ As computerization of available information becomes warehoused, we have taken advantage of that sophistication by upgrading our process for audit selection. A more automated analysis is being utilized which results in better audit coverage of the corporate tax base.
- ◆ A spirit of cooperation was evident when a joint project between corporate taxpayers and the Department yielded a proposed “safe harbor” rule for a highly technical area of tax law. This is expected to reduce the taxpayers’ workload while providing for ease of administration by the Department. Currently, the rule is out for comment.
- ◆ During this year’s 7th Annual Advance Tax Workshop that was held on March 15th & 16th at Arizona State University’s Business College the

section tested a different venue for class presentation that consisted of hot audit topics. The setting was a moderator or two overseeing the rather lively discussions and the result was that there is a heightened awareness of the issues and a realization that while there is not a clear right answer our job is to come as close as possible to the right answer that can be applied fairly to all similarly situated taxpayers.

INFORMATION TECHNOLOGY **FUNCTION**

STRATEGIC MANAGEMENT SERVICES **E-GOVERNMENT**

Strategic Management Services is responsible for Information Technology strategic planning, budget and contracts. The E-government section is responsible for the research, analysis and implementation of E-government technologies as they apply to the business needs of the Department of Revenue. Currently, development is ongoing to accept 2D-Barcodes on personal Income Tax and enhancements to the Income Tax E-File program.

APPLICATION DEVELOPMENT TEAM (ADT)

Traditionally, application development was staffed and run out of Information Technology (IT). As projects were developed, appropriate additional staff was added to project teams out of the user areas. But the focal point was IT. This focus occurred because the technical application development skills were within IT. Today, the technical application skills are not only in IT, but also in our user areas. To take advantage of these expanded skill sets, the Application Development Team (ADT) was created. The Application Development Team (ADT) is a virtual team concept utilizing resources from both the Information Technology and user areas.

CUSTOMER SUPPORT

Customer Support is part of the Applications Development Team (ADT). The Customer Support section reviews and monitors all Information Technology Requests (ITR) related to mainframe operations, tests changes and performs quality control functions on selected system output.

Customer Support interacts with users to perform system and business function analysis related to changes in DOR's systems. Customer Support also coordinates between various user groups in the DOR and Information Technology support staff to maintain the mainframe security access system for all users.

APPLICATION SERVICES

Applications Services is part of the Applications Development Team (ADT). Application Services plans, designs, develops, implements, maintains, supports and enhances mainframe software. The section also provides quality assurance and problem resolution services on ITRs for all mainframe applications, including 24/7 on call support. Future Department directions include the re-engineering of legacy tax systems to support new technologies.

Data Center Support

Data Center Support is comprised of Computer Operations, Production Control, Technical Support and Data Base Management.

Computer Operations and Production Control are responsible for 24/7 monitoring of computer program execution, setting up and scheduling batch production processing, troubleshooting and resolution for abends. This section also ensures 100% of completion of daily production runs and printed computer generated reports.

Technical Services supports and maintains the Problem Management and Security Systems. Technical Services creates and maintains IT's application development environments, as well as assisting Operations in the enforcement of production standards and in keeping applications compliant with changing standards.

Data Base Management supports and maintains the client server databases and mainframe databases. This section is responsible for all data base development, as well as the day to day operations of the data base environments.

Enterprise Network Support

Enterprise Network Support is responsible for the research, analysis and implementations of new technologies as they apply to business needs. The goal of this section is to include the support and management of the LAN/Wan to ensure 99.80% of system availability to end users and client counties. The server and desktop groups are responsible for supporting 1200 LAN users and implementation of new hardware and software as required. In addition to the day-to-day operations, the DOR IT Help Desk responds to thousands of internal and external customer requests. The goal of the help desk is to acknowledge 90% of all problems reported within two hours and to resolve 95% of all problems reported within ten days.

HIGHLIGHTS IN FY2000-01

- ◆ Successfully implemented direct deposit refunds for Income Tax Electronic Filing (E-File).
- ◆ Implemented Year-end Income tax changes.
- ◆ Completed 245 ITRs (Information Technology Requests).
- ◆ Successfully completed Phase I of the mainframe consolidation project. This phase consisted of moving the mainframe hardware and software operating systems to the Department of Administration.
- ◆ Implemented application changes to support the Governor's Education Bill.
- ◆ Implemented application changes for penalty on all tax types to comply with 1998 legislation (SB1229). This was a major undertaking to change the penalty processes for all tax systems, as well as retain the old processes for tax periods beginning prior to 1/1/2001.
- ◆ Implemented a new Data Entry system.
- ◆ Implemented an electronic Purchase Order Processing System (POPS) for DOR, to automate the paper requisition process.
- ◆ Converted all mainframe terminals to PC.

PROCESS MANAGEMENT FUNCTION

SUPPORT SERVICES

Support Services is divided into four units: Document Staging is responsible for the receipt, sorting and delivery of all tax documents, payments and correspondence received by the agency. Remittance Processing is responsible for keying and depositing all tax revenues. Outgoing Mail is responsible for mailing all tax documents, billing, correspondence, tax change notices, audit and collection notices to taxpayers. Data Input is responsible for keying all tax returns and documents into the agency's various computer systems.

INDIVIDUAL INCOME TAX PROCESSING

Individual Income Tax Processing is divided into three units: Refund/Research, Document Processing and Error Resolution. These units are responsible for issuing income tax refunds, preparing documents and revenue to be keyed and resolving discrepancies between the taxpayer's calculations and the Department's computerized calculations.

BUSINESS TAX PROCESSING

Business Tax Processing is divided into three units: Transaction Privilege Tax, Withholding Tax and Corporate Income Tax. Each of these units is responsible for the preparation of documents and revenue, issuing credits/refunds as appropriate and resolving discrepancies between the taxpayer's calculations and the Department's calculations.

ACCOUNTS RECEIVABLE

Accounts Receivable is responsible for the automated systems for the four major tax types (Transaction Privilege, Withholding, Individual Income and Corporate Income). The mainframe processing systems that record math and date validations for the base tax returns create receivables. If a return is filed late, has an error in its calculations or there is a problem with the amount paid versus the amount due, the systems will recognize the problem and send a detailed change notice to the taxpayer explaining the problem.

RECORDS MANAGEMENT

Records Management maintains and provides access to tax returns and License applications with the

Department. The Micro-graphics section microfilms income tax, corporate tax and other miscellaneous documents. They also duplicate the information for distribution to different Department sites.

HIGHLIGHTS IN FISCAL 2000-01

- ◆ During the 2000 tax filing season, more than two million individual income tax returns were processed, generating in excess of 1.4 million refunds. More than 580,000 documents required the reconciliation of data based on the Department's computer generated information.
- ◆ Refund turn-around time averaged 11.29 days.
- ◆ 408,573 Arizona Individual Income returns were filed electronically in FY-2001. This represents a 72% increase over the prior year. More than 127,000 taxpayers received their refund via direct deposit. This is the first year we offered this convenience. The number of tax professionals participating in the e-file program exceeded 1000.
- ◆ The total number of Corporate Income Tax documents processed was 235,141, of which 176,294 were returns. The corporate income tax refunds issued exceeded \$130 million.
- ◆ The total number of Transaction Privilege, Use and Severance Tax documents processed exceeded 1.40 million, of which 1.31 million were returns. The Electronic Funds Transfer (EFT) system for Transaction Privilege Tax (started in early 1998) has exceeded our expectations. The \$2.34 billion received is 52% of all TPT revenues collected.
- ◆ The total number of Withholding Tax Documents processed exceeded 2.2 million, of which 394,000 were returns. This year 5,335 employers filed Withholding returns annually and we expect this number to grow as the tax practitioners and small businesses take advantage of this annual program.
- ◆ The Accounts Receivable Unit continued its high level of service in processing maintenance items in less than 24 hours of receipt on items of maintenance with only a 3/10 of 1% error rate.

- ◆ The Records Management unit continues to improved production while maintaining quality. The Records Maintenance Section has received approximately 15,000 new license applications and has had 42,000 requests for taxpayer documents. The Micro-graphics Section received 4.0 million individual documents for microfilming.
- ◆ The Document Staging Unit processed nearly 8.5 million pieces of mail including Personal Income, Withholding, Transaction Privilege Tax and special handling mail for the entire agency. During the peak season, this unit ran two shifts with over 130 temporary and three permanent employees. With the help of three mail-opening machines, they opened approx. 60,000 pieces of mail daily. Teamwork also plays an important part during peak time. Document Staging staff worked with volunteers from other sections of the Department towards a common goal of opening and processing mail to get refunds to taxpayers quicker and improve the Department's overall customer service.
- ◆ The Remittance Processing Unit deposited more than \$4.2 billion and processed over 3 million documents. Due to the teamwork of all sections in the function and additional resources such as working overtime and utilizing temporary employees, the FY01 year-end closed smoothly.
- ◆ The Data Input unit installed a new Data Entry computer system. This system uses a combination of keying and imaging of documents which enables the system to expand and allows the agency to add new and more effective ways to capture the information required to serve the needs of the taxpayers, The section processed more than 3 million documents. During the peak season, the section ran three shifts with over 120 temporary employees. The unit plans to add 2D Bar-coding in the year 2002 in an effort to keep current with the standards of the country.
- ◆ The Out Going Mail Unit processed over five million pieces of mail, not including the county property tax forms. Over \$1.7 million was spent on postage alone. During the past year, postage costs were reduced by over \$110,000 by

presorting large mailings. The unit mailed in excess of 1.2 million refund checks last year, helping to establish one of the fastest refund turnaround times in the nation. With the addition of Direct Deposit we were able to save approximately \$44,000 in postage costs this year.

PROPERTY TAX FUNCTION

VALUATION SECTION

The Valuation Section consists of four teams: the Centrally Valued Properties Unit, the Locally Assessed Properties Unit, the Personal Property Group and the Construction Cost Group.

The Centrally Valued Properties Unit annually determines the full cash value of all utilities, railroads, mines and other complex or geographically-dispersed properties (see page 87 for a list of the industries valued by the Department). Values determined by this unit for such properties are transmitted to the appropriate county assessors for the county tax roll.

The Locally Assessed Properties Unit oversees and ensures the application of uniform appraisal methods and techniques used by the county assessors to determine the value of property. The unit also presents technical workshops to county assessors and provides an appraiser/assessor certification program for appraisal staff.

The Personal Property Group oversees the development and application of personal property procedures and manuals and provides technical workshops to county personnel.

The Construction Cost Group maintains existing component costs for the computerized construction cost system and annually reviews market and location adjustments in each county. The group also provides training for county appraisers on the use of the construction cost system.

TECHNICAL SYSTEMS AND SUPPORT SECTION

The Technical Systems and Support Section consists of three teams: the CIS and Valuation Review Unit, the CAMA/GIS Unit and the Manuals and Forms Group.

The CIS & Valuation Review unit consists of two groups: the Central Information Services group (CIS) and the Valuation Review group.

The CIS group develops and coordinates the information processing services necessary to support property tax administration for 13 Arizona Counties. The support services provided to the client counties include management of automated systems used in the maintenance of assessment and tax rolls, the preparation of valuation abstracts, property tax notices of value and statements of taxes due. The group is also responsible for the statewide administration of the additional state aid to education homeowner rebate program for Arizona school districts and levy limit calculations for client counties, cities/towns and community college districts.

The Valuation Review group is responsible for annually measuring county assessors' performance for compliance with established full cash/market value standards. The group conducts sales ratio studies throughout the yearly valuation cycle to assist counties in complying with valuation standards.

COMPUTER ASSISTED MASS APPRAISAL/ GEOGRAPHIC INFORMATION SYSTEMS

The CAMA/GIS unit assists the county assessors with maintaining and updating a standardized cadastral mapping system (CAD). The unit prepares tax area code maps that depict boundaries of taxing jurisdictions authorized to levy property taxes. In addition, they develop sales-based models for residential properties and maintain and assist County Assessors with the Land Valuation System and the Sales Tracking System.

The Manuals and Forms group responsibilities include the annual compilation and updating of manuals and guidelines; annual review of forms prescribed for use in the administration of the property tax system; annual review of legislative enactments and changes to existing property tax statutes; and annual preparation of the "Title 42 Extract of Property Tax Statutes". This extract includes all property tax statutes and related statutes from other titles affecting the property tax system.

HIGHLIGHTS IN FY2000-01

- ◆ The Construction Cost group developed new valuation models for nine categories of commercial properties.
- ◆ The Commercial Property group published the 2000 Commercial Property Study and accompanying workshop materials. The Team conducted workshops in Flagstaff, Tucson, Phoenix, Kingman and Yuma for the County Assessors' staffs.
- ◆ The Locally Assessed Property Unit prepared two new guidelines for use by the county assessors. The guidelines pertain to residential common areas and historic properties.
- ◆ The Centrally Valued Property Unit continued to conduct research and study the deregulated electric power industry for purposes of implementation of HB2324 which was passed during the 2000 legislative session.
- ◆ The Training group taught 19 appraisal courses. Certificates for Level One were issued to 43 students and 26 Level Two certificates were issued.
- ◆ The Mohave County Assessor's Office became a "client county", contracting with the Property Tax Function to handle all of its data systems needs. The CIS Unit worked closely with the Mohave County Assessor's Office to coordinate a successful transition. Maricopa and Pima counties remain the only non-client counties.
- ◆ The Manuals Unit completed the revised Personal Property and Property Use Code manuals for distribution to all County Assessors and Property Tax personnel.
- ◆ The CIS unit working in conjunction with our Information Technology Section is nearing completion on a project to upgrade our electronic communications system with our client counties to an internet based private network (VPN). The new system will increase user response time and will allow for greater flexibility in transferring data between the Department and the client counties.

TRANSACTION PRIVILEGE TAX FUNCTION

FIELD AUDIT

With a focus on customer service and reduction of contested audits, the Field Audit section continues to improve existing audit systems and approaches. Audit survey results continue to reflect that our auditors strive for professionalism and clarity of work product throughout the audit process. In addition to maintaining a heavy workload, the Field Auditors participated in several projects that emphasized streamlined procedures.

The major ongoing project is the joint (multijurisdictional) audit program which was mandated by SB 1513. The TPT Audit Function continues to work cooperatively with the self-collected (non-program) cities and others to facilitate the implementation of this program, which requires that all audits be offered as joint audits between the state and applicable cities and towns. This is a complicated endeavor that will evolve with time and taxpayer input.

REFUNDS UNIT

The Refund section is responsible for analyzing and processing taxpayer refund requests. While responding to a changing environment, the section developed better monitoring and tracking systems, and streamlined procedures.

CITY PROGRAM

The City Program coordinates the administration, collection and auditing of Transaction Privilege & Use Tax for those cities and towns that have contracted with the Department. The City Program has continued to work diligently to serve these cities. In addition, the Cities Program continues to represent the Department in working with the cities and towns that are not in the collection program through the Unified Audit Committee. This committee works to ensure that audit issues are handled uniformly by all cities and towns.

The City Program continues to staff the Municipal Tax Code Commission. The Commission holds

public hearings on all changes to city tax codes, except tax rates.

HIGHLIGHTS IN FY2000-01

- ◆ The Transaction Privilege Tax Function made significant fundamental changes from its traditional organizational structure that were implemented July 1, 2001. The use of separate crews for the Field Audit personnel and the Executive level were replaced by teams. This change brings the similar functions together to maximize their coverage, effectiveness, communication efforts and efficiency.
- ◆ The Desk Audit unit continued its efforts to locate, identify and bring into compliance entities doing business in Arizona and had its most productive year since its inception. During FY 2001, Desk Audit activities resulted in the licensing of 944 new entities, which reflects an increase of 84.7% over the prior year. The total revenues associated with this work was \$16,029,630; a 14.9% increase over the prior year.
- ◆ The Refund unit reviewed and approved 1,275 refund claims granting \$16 million in refunds. Also, by refining their processes, they reduced the refund processing time by 20%.
- ◆ The Cities unit continues to assist and respond to city inquiries. The unit has also assisted with the implementation and update of the multijurisdictional audit program.
- ◆ The Audit Select unit timely processed 100% of all audit information and continues to work as the liaison between the Department and the City of Phoenix for the multijurisdictional audit program.
- ◆ The Field Audit unit completed and processed 2,127 field audits of in-state and out-of-state taxpayers yielding over \$26,000,000 in assessments.

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