

*Section 7 -
Organization and Staffing Issues*
Department of Revenue Field Operations

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for
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Government Performance Audit Committee
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Issue Statement

This paper assesses the efficiency and effectiveness of the organizational structure of the Department of Revenue's Field Operations Division. This division has four regions composed of 55 field offices and 20 suboffices.

Background

The Field Operations Division of the Department of Revenue (DOR) is responsible for:

- Enforcing collection of delinquent accounts
- Providing taxpayer assistance
- Auditing individuals and businesses
- Enforcing compliance with the Revenue Laws for all tax schedules
- Investigating criminal violations of the Revenue Laws

The Field Operations Division currently has four regions made up of 55 field offices and 20 suboffices which are open from one to three days a week. Thirty-nine of the field offices are revenue offices, 14 are revenue and audit offices, one is an interstate audit office, and one is a special agents office. There are approximately 433 personnel in the Field Operations Division, of which approximately 158 are field auditors and 231 are revenue officers. Field Operations personnel represent approximately 36 percent of the Department of Revenue's total personnel.

The Field Operations Division reorganized in January 1991 to improve communications, enhance efficiency, eliminate layering, and generally streamline operations during a period of scarce resources. The field offices were divided into four regions with audit and collection offices combined under one of four regional managers who supervise the activities in their regions. The Field Operations Division is not affected by DOR's proposed functional reorganization, which is described in a separate issue paper.

Staff in the field offices consists of revenue officers and auditors. Revenue officers are responsible for collecting delinquent taxes and providing assistance to taxpayers in filling out their tax forms and registering their businesses with tax identification numbers. They collected \$89,250,712 in fiscal year 1991-92, a 17.5 percent increase over the previous year. Auditors are responsible for auditing individuals and businesses in their jurisdiction. Most of their time is spent on sales tax audits because these audits generate 70 to 80 percent of the department's total assessments.

The Field Services Division also has an interstate audit unit which audits businesses that operate in North Carolina but have their headquarters in other states. North Carolina currently operates

two satellite offices in Georgia and California, with plans for additional offices in New York, Chicago, and Atlanta. Each satellite office has one employee that works out of his or her home.

Findings

Finding 1: DOR has 55 permanent field offices and 20 suboffices, more than any other southeastern state.

A comparative analysis of several southeastern states' revenue field operations found that no other state has as many field offices as North Carolina. Exhibit 1 shows that North Carolina has one revenue office for every 88,381 North Carolinians, and one revenue office employee for every 15,309 North Carolinians, which is higher than most other states.

Collection activity varies among the offices. In fiscal year 1992, the revenue collected ranged from \$167,917 in Plymouth to \$9,455,885 in Charlotte. (The Edenton office collected \$121,434 but was closed on March 1, 1992.) Average revenue collections per person for fiscal year 1992 ranged from \$134,229 in Lincolnton to \$604,117 in Raleigh. Differences can be attributed to different demographic and economic characteristics of various parts of the State.

The 1985 Governor's Efficiency Study Commission Report recommended closing 23 field offices that were located within a 45-minute commuting time of other field units, and consolidating personnel, as required, in the remaining field facilities. This recommendation was made because many of the offices did not have automation capabilities to carry out their responsibilities efficiently. Consolidating offices would help correct these deficiencies.

The Department has acted on the Efficiency Study's recommendations, consolidating 13 field offices and relocating 4 since 1989. The department has encountered difficulties when attempting to close offices. Legislators often receive pressure from their constituents because they do not want to lose the presence of the DOR in their counties. In several cases, such as Spruce Pine, Oxford, Windsor, Roxboro, and Yadkinville, the Field Operations Division closed the office but maintained a suboffice that is open one day a week and staffed by a staff member from a nearby office so that DOR still maintains a presence in the county. Twelve of the 20 suboffices have been able to procure free office space.

Recommendation: The department should eliminate 19 permanent field offices that are within 45 miles of another field office and have average collections of less than \$300,000 per revenue officer per year.

Personnel in the closed offices should be consolidated with other offices. This will allow revenue officers who are located in areas with low collections to be assigned to offices where the potential for higher collections exists. The eight suboffices that have not been able to procure free office space should also be closed.

EXHIBIT 1

Comparison of Southeastern State Field Operations

State	Population*	Number of Field Offices	Total Field Personnel	Number of Field Auditors	Number of Revenue Officers	Population per Field Office	Population per Field Personnel
North Carolina	6,628,637	55 permanent offices 20 suboffices	433	158	231	88,381	15,309
Alabama	4,040,857	8 (see note 1)	See note 2	See note 3	See note 3	--	--
Georgia	6,478,216	11	293	See note 4	See note 4	588,928	22,110
Kentucky	3,685,296	11	251	66	123	335,026	14,682
Maryland	4,781,468	17	79	See note 5	54	281,262	60,525
South Carolina	3,486,703	9	225	140	85	387,411	15,496
Tennessee	4,877,185	8	320	225	95	609,648	15,241
Virginia	6,187,358	8	312	173	92	773,419	19,831

Note 1: Alabama has 8 service center areas - one of them has 2 suboffices

Note 2: In Alabama, each taxing division has its own field operations; therefore a total number is not available

Note 3: In Alabama, each taxing division has its own field auditors and revenue officers. For example, the Income Tax Division has 63 field auditors and 50 revenue officers

Note 4: Georgia has 293 field office personnel - 223 are actual tax collectors and auditors (a more precise breakdown was not available)

Note 5: In Maryland, auditors are not assigned to the field offices; they're assigned to a different division

*Source: The Book of the States, 1992-93

While we expect overall revenue collections to increase, the savings that will result from closing field offices will be offset by the need to acquire rental office space in the remaining offices.

Taxpayers who live in areas in which field offices have been closed will have to drive further to get to a revenue office. However, with the establishment of several new toll-free numbers for taxpayer assistance (see finding 2 in this issue paper), the need for taxpayers to travel to a revenue office will diminish.

Finding 2: *Revenue officers spend approximately 25 percent of their time providing taxpayer assistance and provide similar services as the tax technicians in the Office Examinations and Taxpayer Assistance sections.*

One of the Department of Revenue's major functions is to provide taxpayer assistance. Revenue officers spend approximately 25 percent of their time assisting taxpayers complete their tax forms and registering for businesses. During the tax busy season, more time is devoted to providing this assistance. In the Asheville regional office, for example, four to five people are devoted to providing assistance from February 15 to April 15. One revenue office stated that taxpayers often come to the Department of Revenue because it is a free source of assistance, when they should be paying for this service from a tax return preparation firm. Another office in a rural area stated that most taxpayers who come in for assistance often cannot afford to pay for assistance.

The state currently has 10 toll-free lines for taxpayer assistance and 2 toll-free lines for ordering forms. These lines are only for taxpayers with questions on their individual income returns. Under the Department of Revenue's new organization, 15 tax technicians in the Office Examinations Division will assist taxpayers via these toll-free lines. (They will also assist the auditors with simple audit functions when time is available.) The tax technicians answer questions on the status of taxpayer refunds and their accounts and assist taxpayers in completing their tax returns. When calling a taxpayer assistance line, the caller can access the Voice Response Unit (VRU) for refund information by entering his or her Social Security number. The caller also has the option of bypassing the VRU and speaking directly with a tax technician. From January 2, 1992 to October 10, 1992, the toll-free assistance lines received 369,783 calls: 248,837 of these calls were answered by the VRU and 120,946 were resolved by tax technicians.

Under the department's new organization, there are 25 employees in the Taxpayer Assistance Section of the Office Services Division. These 25 employees will include the administrative officers from the various taxing divisions who previously handled taxpayer questions; they will continue to be grouped by tax type until they are able to cross train on the job. This staff will assist taxpayers by giving speeches and providing classes on tax applications and corresponding and conferring with the taxpayer and/or taxpayer's representative on controversial matters that do not involve a tax policy determination. This staff will also assist taxpayers by answering complex technical questions that the tax technicians are unable to answer and answering questions about correspondence taxpayers have received from the Department of Revenue.

Recommendation: *The Field Operations Division should phase out the personalized, face-to-face taxpayer assistance which is currently provided by revenue officers, and increase the number of toll-free telephone lines that provide taxpayer assistance.*

The taxpayer assistance function is an essential function of the Department of Revenue. However, the goal of the Department should be to move toward a more centralized system of providing this assistance via the toll-free assistance lines. The department should phase out the personalized, face-to-face assistance which is currently provided by revenue officers in the field. Revenue officers in the field offices should make an effort to answer simple questions, but should not spend time filling out a taxpayer's return. This will allow revenue officers to focus their efforts on collecting delinquent taxes. In addition, the scope of assistance provided by the toll-free lines should be expanded to include all tax schedules, not just individual income tax.

Approximately 25 percent of a revenue officer's time is spent providing this assistance, which equates to approximately 58 FTE positions. With the increased assistance that will be provided via toll-free lines, we believe that the personalized, face-to-face taxpayer assistance provided by revenue officers can be reduced from 25 percent to 5 percent over five years. We also estimate that one tax technician will need to be hired each year for the first five years to handle the additional taxpayer assistance work load. (See Exhibit 2.)

EXHIBIT 2
Estimated Staff Reductions for Ten-year Period

	Current year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6-10
Revenue staff reductions	--	-10	-10	-10	-10	-6	-0
Total revenue officers	231	221	211	201	191	185	185
Additional tax technicians needed for toll-free lines	--	+1	+1	+1	+1	+1	0
Total tax technicians	15	16	17	18	19	20	20
Cumulative net change in state employee work force	--	-9	-18	-27	-36	-41	-41

Approximately \$1,531,391 will be saved annually if 46 revenue officers (20 percent) are eliminated over five years. Approximately \$37,351 will need to be spent each year for each of the additional tax technicians. This estimate assumes that the average salary for the Department of Revenue is \$29,550 and the average benefit cost is \$7,801. The net annual and cumulative estimate of savings is shown in Exhibit 3.

The majority of taxpayers will not receive face-to-face taxpayer assistance but should receive the same level of assistance via the toll-free number. The toll-free lines will be more convenient and efficient for taxpayers because they can receive assistance in their homes rather than waiting in line at a revenue office.

Implementation considerations

Positions should be eliminated in conjunction with the consolidation of the revenue offices recommended in Finding 1. Taxpayers should be notified that revenue officers will no longer be providing assistance when tax forms are mailed, but should be reassured that they will receive the same level of assistance via the toll-free lines.

Performance measures should also be established to monitor if assistance is being provided effectively by the toll-free lines.

Finding 3: The Field Operations division is in the process of trying to expand its interstate audit group. This unit has a yield of \$10 per dollar of cost, which is significantly higher than the in-state audit group.

The interstate audit unit is responsible for auditing businesses that have operations in North Carolina but are headquartered in other states. Exhibit 4 shows the number and location of out-of-state businesses registered to do business in North Carolina.

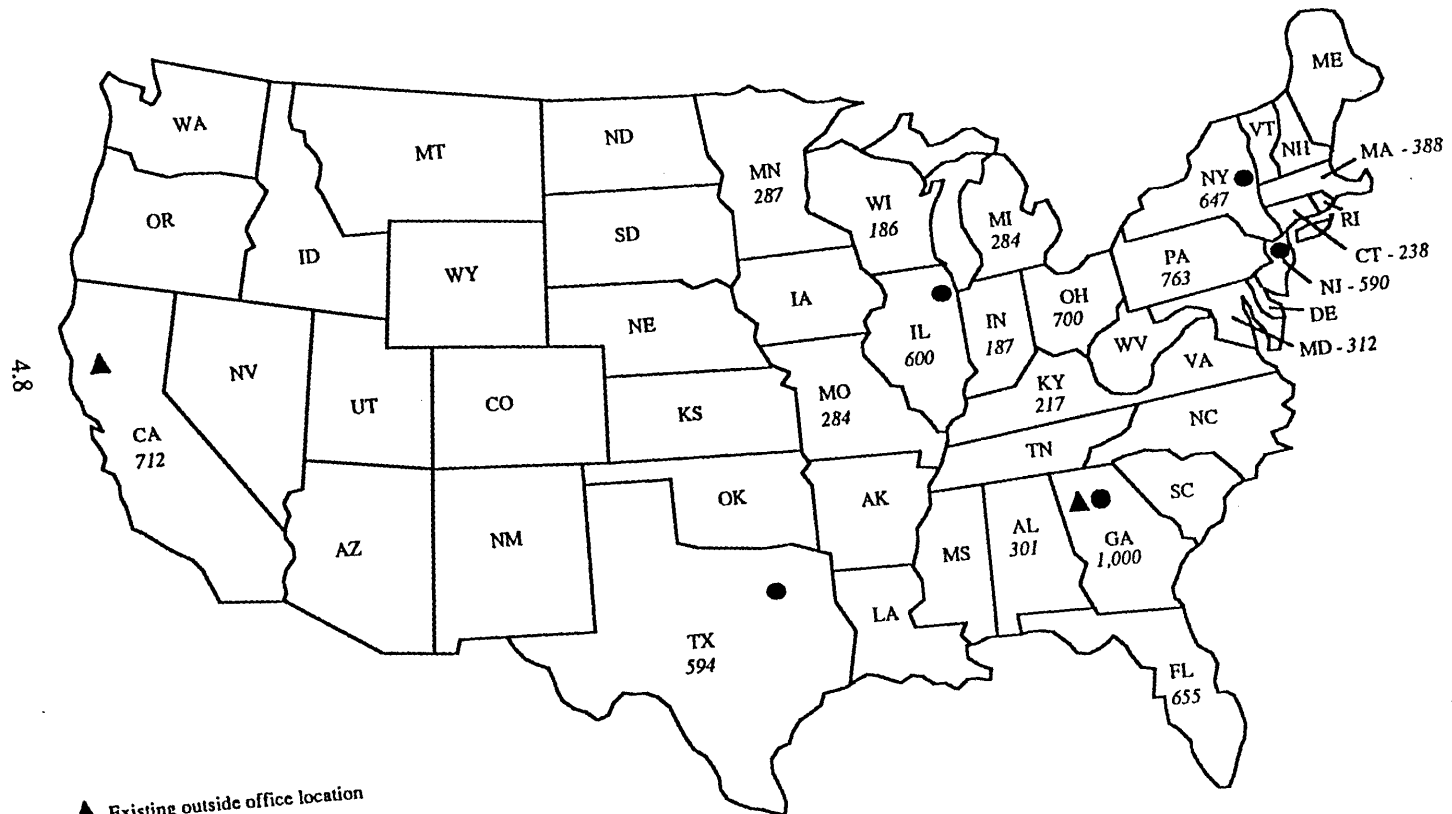
There are currently 12 positions in the interstate audit group. There are six auditors who live in North Carolina and travel to other states to perform audits, two auditors who live in Atlanta and California and audit businesses in those areas, two team leaders, one supervisor, and one vacancy. The in-state interstate auditors travel 50 to 60 percent of the time. The two auditors who live in Atlanta and California work out of their homes.

The Field Operations Division monitors the success of its auditors by their yield, which is their salary and expenses divided by the audit assessments they make. The average yield for the

EXHIBIT 3
Estimated Annual Savings
(1992 dollars)

	Fiscal Year ending June 30									
	Current	1994	1995	1996	1997	1998	1999	2000	2001	2002
Annual	--	\$336,159	\$672,318	\$1,008,477	\$1,344,636	\$1,531,391	\$1,531,391	\$1,531,391	\$1,531,391	\$1,531,391
Cumulative	--	\$336,159	\$1,008,477	\$2,016,954	\$3,361,590	\$4,892,981	\$6,424,372	\$7,955,763	\$9,487,154	\$11,018,545

EXHIBIT 4 **Number of Out-of-State Businesses Registered to Do** **Business in North Carolina***



▲ Existing outside office location

● Proposed outside office location

*Numbers beneath states indicate the number of out-of-state businesses registered to do business in North Carolina

*Virginia, South Carolina, and Tennessee are audited by the in-state audit group; therefore, businesses in those states that are registered to do business in North Carolina are not included on this map

interstate audit unit for fiscal year 1991-92 was \$10.11:1; that is, each interstate auditor generated \$10.11 for every \$1 spent on his or her salary/expenses. The Atlanta satellite office's yield was \$25.66:1 for the same period. This compares with the average in-state field auditor's yield of \$6:1.

Several of the southeastern states have larger interstate operations than North Carolina. Virginia has the largest interstate audit unit of the states we surveyed, with 15 auditors who live in Virginia and travel to other states, and 32 who live in other states. South Carolina's Tax Commission has 22 interstate auditors: 11 live in South Carolina and travel two weeks each month, and 11 live in other states. Many of South Carolina's interstate auditors assess over \$1 million per year.

Tennessee's Department of Revenue is planning to open a new audit office in San Diego in December 1992 with four auditors. The state currently has 21 interstate auditors who work out of offices in New York, Chicago, Atlanta, and Houston. Maryland has interstate audit offices in New York, Chicago, and Los Angeles; each office has three auditors.

Alabama's Department of Revenue has interstate auditors in most of its taxing divisions. For example, the Income Tax Division has nine interstate auditors who live in Alabama and travel two weeks each month. The Sales and Use Tax Division has a larger interstate audit unit, and many of these auditors are based in other states. The state of Kentucky's auditors handle both in-state and out-of-state operations; they do not have a specific unit that specializes in interstate audits.

North Carolina has a plan to expand its interstate operations. Effective November 1, 1992, one of its interstate auditors will transfer to Atlanta. The Department will also use the existing vacancy in the interstate audit unit to hire an auditor in the New Jersey/New York area as of November 1, 1992. Another vacancy that is expected to occur elsewhere in the Field Services Division will be reclassified as an out-of-state auditor and a second person will be hired for the New Jersey/New York area on November 1, 1992. As other vacancies occur in Field Services, the positions will be reclassified and additional auditors will be hired in California, Chicago, and Dallas.

In addition, five corporate auditors from the Corporate Income and Franchise Tax Division will be transferring to the interstate audit unit in December 1992. Currently, the interstate auditors do not perform corporate audits because of their complexity. The five corporate auditors will assist in training the interstate auditors to conduct corporate audits. The corporate auditors will also be trained to do sales tax audits, license and excise tax audits, etc. North Carolina's goal is to have assessments of \$1 million per interstate auditor.

Recommendation: *DOR should continue to expand its interstate audit operation.*

Vacancies that occur in the Department of Revenue should be reclassified as interstate auditors

so that the state can immediately pursue this lucrative source of revenue. In addition, the savings generated from eliminating several revenue officers in Finding 2 could be used to hire additional interstate auditors. The interstate audit unit could assess up to \$20 million per year if: the current vacancy is filled; the interstate audit group is able to hire three additional auditors as planned; the unit receives the five corporate auditors from the Corporate Income and Franchise Tax Division; and each auditor achieves the unit's goal of \$1 million in assessments per auditor. Additional assessments will be made with every interstate auditor hired.

Finding 4: *Two field offices that have both revenue collection and audit functions have excess layers of management.*

Staffing requirements vary significantly among the 14 revenue/audit field offices because of different population levels and work loads in the counties. Exhibit 5 shows the number of revenue officers and auditors in each office.

EXHIBIT 5
Number of Staff in Revenue/Audit Offices

<u>Office</u>	<u>Number of Revenue Officers</u>	<u>Number of Auditors</u>
Rockingham^	3	4
Elizabeth City**	3	5
Salisbury**	4	9
Hickory^	4	10
New Bern**	4	11
Rocky Mount	7	9
Wilmington^	9	11
Asheville^	9	11
Durham^	11	9
Fayetteville**	11	10
Winston-Salem	11	11
Greensboro^	11	17
Raleigh	15	16
Charlotte	22	25

^Smaller offices could possibly be consolidated with these offices per Finding 1 so the number of revenue officers and auditors could increase in these offices

**These offices have low collections per revenue officer and could be consolidated with other offices

Each of the four main regional offices is headed by a regional manager. In addition, each of the 14 field offices with both revenue collection and audit functions has two supervisors - one for auditors and one for revenue officers. In the Rockingham and Elizabeth City offices, the number of auditors and revenue officers do not warrant two supervisors. For example, in the Rockingham field office, the revenue manager has a span of control of three and the audit manager has a span of control of four. It appears that one person should be able to supervise both groups and should be able to handle a span of control of seven. After the field office consolidations recommended in Finding 1, the span of control of a single manager in these affected offices will be consistent with that of other DOR field offices. Exhibit 6 illustrates the current and proposed organization.

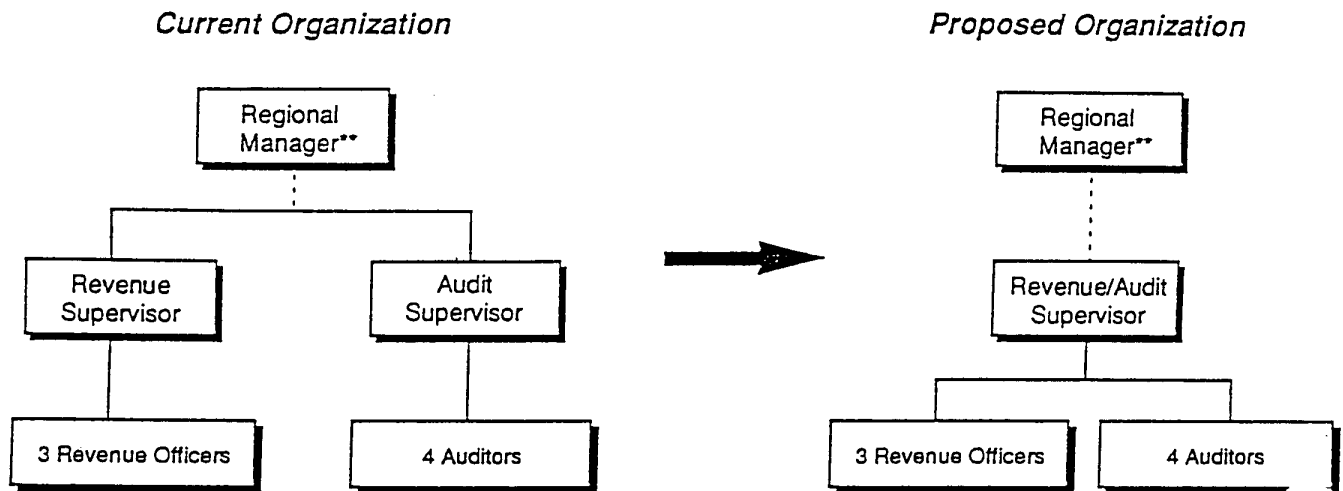
Recommendation: *A supervisory position should be eliminated in both the Rockingham and Elizabeth City field offices.*

In the Rockingham and Elizabeth City field offices, the regional manager should designate either the revenue supervisor or the audit supervisor as supervisor of the entire office. The other supervisor position should be eliminated in the Rockingham and Elizabeth City offices. (See Exhibit 7.) Approximately \$74,702 will be saved each year with the elimination of these two positions. (See Exhibit 8.) This estimate assumes that the average salary for the Department of Revenue is \$29,550 and the average benefit cost is \$7,801. There should be no reduction in service to taxpayers.

EXHIBIT 7
Estimated Staff Reductions for Ten-year Period

	Current year	Year 1	Year 2	Year 3	Year 4	Year 5-10
Total field personnel	433	431	431	431	431	431
Cumulative net change in state employee work force	-2	-2	-2	-2	-2	-2

EXHIBIT 6
Current and Proposed Organization of a Typical
Revenue/Audit Office*



*The Rockingham revenue/audit office is being used in this example

**The regional manager is not in this office but the supervisors do report to him

EXHIBIT 8
Estimated Annual Savings
(1992 dollars)

	Fiscal Year ending June 30									
	Current	1994	1995	1996	1997	1998	1999	2000	2001	2002
Annual	--	\$74,702	\$74,702	\$74,702	\$74,702	\$74,702	\$74,702	\$74,702	\$74,702	\$74,702
Cumulative	--	\$74,702	\$149,404	\$224,106	\$298,808	\$373,510	\$448,212	\$522,914	\$597,616	\$672,318

References

1985 Governor's Efficiency Study Commission Report

Field Operations Division Collections Data (by office)

Field Operations Division Fiscal Year 1991-92 Performance Data

Field Operations Division Organization Charts

Memo re: Office Consolidations/Relocations

Memo re: Reorganization of Field Operations Division

North Carolina Department of Revenue Field Personnel Roster