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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

May 31, 2002

Mr. Arthur J. Roth
Commissioner
NYS Department of Taxation and Finance
State Campus, Building 9
Albany, NY 12227

Re: Call Center Services Organizational
and Automation Changes
Report 2001-S-9

Dear Mr. Roth:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we audited the results of the Department of Taxation and Finance's (Department) efforts in 1996 to increase tax revenue collections, enhance staff productivity and improve customer service through organizational changes and new automation for the Call Center Services Unit. Our audit covered the period April 1, 1996 through October 31, 2001.

A. Background

The Department administers the State's tax laws and serves as the State's general tax collection agency. The Department's Tax Compliance Division (Division) is responsible for collecting delinquent personal income and business taxes. The Division employs approximately 810 staff at the Department's central office in Albany, the Division's Call Center Services Unit (Call Center) in Colonie, or one of 11 district offices throughout the State.

Historically, the Division collected revenue from delinquent taxpayers by written notices to taxpayers over a period of time. If payment was not received, the Division assigned the collection case to a Tax Compliance Agent (agent) at the appropriate district office. The agents are authorized to investigate cases by making field visits to delinquent taxpayers, and by taking other necessary steps to resolve tax liabilities due the State. Since the written notices preceded the agent's involvement with the case, the agent did not have personal contact with the delinquent taxpayer until the liability was already several months old. Further, the Division's Collection Plan for the State fiscal year ended March 31, 1997 revealed, that the Call Center, which responds to taxpayers' questions about their tax liabilities, did not have adequate resources to properly respond to all the inquiries it received. According to Division officials, callers were often put on hold for long periods and it was usual for the Call Center to respond to only 40 to 60 percent of taxpayer calls. Division

officials believed that the delay in establishing personal contact with taxpayers and the service problems at the Call Center had negative effects on revenue collections, staff productivity and customer service.

To correct these conditions, in July 1996, the Department implemented organizational changes and new automation affecting the Call Center. The specific initiatives included purchasing an automated telephone collection system for the Call Center, assigning high dollar-value cases to a specialized unit in one district office, and moving 90 Tax Compliance Representative (representative) positions from the district offices to the Call Center to expand Call Center operations. Field office representatives were paraprofessionals who provided general tax payment information to taxpayers, responded to taxpayer inquiries and generally prepared cases for agents.

The Division installed its new telephone system, the Automated Call Distributor (ACD), during the 1996-97 fiscal year at a cost of \$3.5 million. The ACD provides several automated interactive voice response programs. One such program prompts callers for tax payment and other information and allows taxpayers to complete business with the Division either with or without speaking to a representative, depending on the tax issues involved. Another ACD program automatically dials the phone numbers of delinquent taxpayers, enabling Call Center representatives to contact taxpayers when the tax liability has first accrued. The Division believes the early personal contact with taxpayers provided by ACD enhances collection efforts, since it encourages cooperative taxpayers to settle liabilities before they age and become harder to collect. Agents can then focus on collecting liabilities from taxpayers who have failed to make payments. According to the Division, the restructured collection process also results in better customer service, because the majority of Call Center calls are answered, wait time is reduced and representatives at the Call Center can intervene as needed to assist callers.

In a prior audit of Division collection activities (Report 93-S-44, issued October 14, 1993), we recommended that the Division identify collection actions and results, and use appropriate management data to determine the effectiveness of its collection efforts. At that time, the Department responded that it recognized the need for better information and had begun to address the audit's concerns.

B. Audit Scope, Objective and Methodology

We audited the results that the Department obtained from Call Center organizational changes and new automation for the period April 1, 1996 through October 31, 2001. The objective of our performance audit was to assess the extent to which these results increased revenue collections, enhanced staff productivity and improved customer service.

To accomplish our objective, we reviewed relevant laws, rules and regulations, examined the Division's collection plans for the period April 1, 1996 through March 31, 2001, and reviewed the Division's July 1996 study of its operations. We analyzed and attempted to verify various Division management reports relating to productivity, case inventory levels and other key indicators of performance. We visited the Department's central office and its Call Center.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations that are included in our audit scope. Further, these standards require that we understand the Department's internal control structure and its compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence-supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

C. Results of Audit

Similar to observations we made in our 1993 audit of Division collection activities, we found that the Department did not quantify revenue collections and staff productivity goals for the 1996 initiatives affecting Call Center operations. Consequently, the Department lacks a meaningful accountability standard for evaluating these outcomes. In addition, the Department did not establish a sufficiently reliable means to measure the extent that the 1996 initiatives increased tax collections and enhanced staff productivity. For example, Department data for measuring staff productivity and increased revenue collections resulting from the Call Center changes were based on undocumented estimates. Also, management reports measuring staff productivity and revenue collections had discrepancies that minimized their usefulness in assessing performance. The Division has benchmark goals for customer service in the Call Center, and relevant performance indicators show improved customer service at the Call center as a result of the 1996 initiatives. The Division was in the process of developing customer service measures at the district offices.

D. Revenue Collections and Staff Productivity

Quantifying goals and providing relevant performance measurement for major projects involving tax collections are complex tasks given the many variables that can impact revenue collections. Nevertheless, to ensure the effective use of government resources these tasks must be accomplished.

We found that the Department began organizational changes and new automation affecting Call Center operations without quantifying the expected goals for increased revenue collections and enhanced staff productivity. Further, the Division did not determine, at the outset, its methodology for reasonably measuring revenue collections and staff productivity changes that resulted.

During our audit, officials advised us that they primarily measured the success of the 1996 initiatives by comparing the average dollars collected per productive staff day in the fiscal year ended March 31, 1997, when the representatives were located at the district offices, to the average dollars collected per productive staff day in the fiscal year ended March 31, 1998, when the representatives were reassigned to the Call Center. (Productive staff time is time allocated directly to revenue producing activities.) The Division provided us with data that indicated that the average dollars collected per productive staff day for the representatives was \$2,893 in the fiscal year ended March 31, 1997 (the base year), and was \$6,698 in the fiscal year ended March 31, 1998; an increase of 132 percent. When making this measurement, Department officials estimated the dollars collected per productive staff day for representatives in the base year, since the revenue collections data for that year did not distinguish the results of the representatives from the results of agents in the district offices. We could not rely on this measurement, however, because the Department was unable to provide us with support for the calculation of the base year estimate for representatives. We did note, however, that the combined revenue collections of agents and representatives increased marginally after the Call Center operational changes.

To further attempt to measure the increased revenue collections and enhanced staff productivity resulting from the 1996 initiatives, we reviewed various Department management reports potentially useful for these purposes. We found, however, that key data presented in one report, often differed from the same data in another report. For example, one report that we analyzed showed collections of \$159.9 million and staff productive days of 20,906 for fiscal year 2000-01 while another report covering the same period showed \$216.2 million of collections and productive staff days of 29,333. Without supported estimates and without accurate and consistent data for staff productivity/collections, the Division cannot accurately and reliably determine the extent that Call Center changes were successful.

We also noted that the number of unassigned cases in district offices increased from 11,313 in December 1997 to 29,692 cases in March 2001 (162 percent). One reason for this increase is that the agents remaining at the districts after the representatives had been reassigned to the Call Center had to assume some of the representatives' duties in addition to handling the district caseload. Division officials told us they expected that organizational changes shifting representatives to the Call Center would result in agents having less time to spend on each case and they maintained that it was more productive for representatives to work in the Call Center. However, district cases are assigned on the first-in, first-out basis rather than on a basis that considers case collectibility. Therefore, a growing backlog of unassigned cases could ultimately yield lower revenue collections.

In response to our findings, Division officials pointed out that the expansion of the Call Center was one aspect of a broad initiative to improve overall Division operations. Division officials also state that we have mischaracterized the reliability of the data and need to recognize management's approach to compensating for data problems. Officials add that the Division's Quality Process Team was established in September 2000 to help management understand the calculations in seven different reports used to produce the monthly productivity report. In this regard, we note that the Quality Process Team stated that using seven different reports to create the monthly productivity report is confusing, since the reports produce different numbers for similar activities. In fact, the Quality Process Team recommended programming one report to provide all the needed monthly data. We agree with these observations and find them consistent with our prior

audit report recommendations that the Division should analyze collection data and produce comprehensive reports to identify collection actions and results.

Concerning the increased number of unassigned cases in district offices, Division officials responded that the auditors did not take into account the decrease in the number of agents available, and the reductions in agent inventory levels (cases per agent) made to compensate for increased agent time spent at customer service counters. Further, Division officials state that they plan to change the first-in, first-out system to one that reflects case priority. They add that while one district office has already converted to assignment on a priority basis, developing this method statewide will take considerable time and effort.

E. Customer Service

The Department's strategic plan states that improving customer service is a main goal. Consistent with this goal, the Division spent considerable resources installing current technology at the Call Center and staffing the Call Center with representatives reassigned from district offices. To determine whether the Call Center restructuring has improved customer service, the Department should have established customer service goals, or benchmarks, as well as the means to measure the Division's performance before and after the restructuring. We found that the Department had generally established performance benchmarks and measurement techniques related to meeting customer service goals for the Call Center, and was in the process of developing measures at the district offices.

For example, the Division reports that it was usual for the Call Center to respond to only 40 to 60 percent of incoming calls in the fiscal year prior to the changes affecting the Call Center. By comparison, one Division performance measure for the State fiscal year ended March 31, 2001 shows that the Call Center was able to respond to 82.4 percent of taxpayer calls, which is a significant improvement. The Division is still working toward meeting its goals of responding to 90 percent of these calls. The Division has also established a productivity benchmark for the number of calls representatives should process in an hour. The goal is 3.8 calls per staff hour, and actual performance at the Call Center is 5.1 calls per hour. Overall, the performance measures generally indicate that the expansion of the Call Center did improve customer service at the Call Center.

According to the Division's draft Operations and Collections Plan for fiscal year 2000-01, agents in the district offices also service a substantial number of customers, both over the telephone and at public service counters in each district office. However, the Division has not developed performance benchmarks to evaluate the customer service provided by agents in the district offices. The Division indicated that it is working on developing benchmarks for customer service in district offices.

Recommendations

- 1. Develop quantifiable goals for major initiatives, and establish reliable means of measuring performance to determine whether the initiatives are achieving their goals.*
- 2. Develop and implement comprehensive management reports, based on accurate and reliable data, to measure and monitor Division staff productivity and revenue collections.*

3. *Expedite steps to implement a statewide system of district office case assignment that reflects case priority.*
4. *Establish and use benchmarks to measure customer service in the district offices.*

We provided Department officials with a draft copy of this report for their review and comments. Their comments have been considered in the preparation of this report and are included as Appendix A. Officials indicated that they agree with each of our four recommendations and have already taken steps to implement them.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Taxation and Finance shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report were Arthur F. Smith, Melissa Little, Brittany Hayes, Jason Kearney, Alex Marshall and Nancy Varley.

We wish to thank the management and staff of the Department of Taxation and Finance for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Jerry Barber,
Audit Director

cc: Ms. Deirdre Taylor
Mr. George Konta



STATE OF NEW YORK
DEPARTMENT OF TAXATION AND FINANCE
W. A. HARRIMAN CAMPUS
ALBANY, NY 12227

JUDITH A. HARD
EXECUTIVE DEPUTY COMMISSIONER

May 7, 2002

Mr. Jerry Barber
Audit Director
Office of the State Comptroller
Management Audit, 11th Floor
110 State Street
Albany, New York 12236

Dear Mr. Barber:

Thank you for the opportunity to comment on the findings contained in the working draft of the audit entitled, "Call Center Services Organizational and Automation Changes (2001-S-9)." We are pleased with the auditors' conclusion that we have achieved customer service improvements through the organizational and technological changes implemented in our Tax Compliance Division's (TCD) Call Center operation. This is based on the customer service "benchmarks" developed as part of the Taxation and Finance Department's Performance Measurement Initiative. We are working on developing comparable benchmarks for TCD services provided by our District Offices.

The auditors expressed concern with the consistency of some data between reports used by TCD to manage collection operations. Because of similar concerns, we initiated a comprehensive reporting review project in September 2000, before the OSC audit began. We welcome the auditors' endorsement of the recommendations of the Quality Process Team which reviewed our reports and reporting processes.

The auditors favorably comment on a change in our District Office case assignment process. This approach selects cases based on indicators of revenue potential, rather than the modified First In First Out (FIFO) approach built into the CARTS assignment system. We have, in fact, now implemented this new assignment process in all of our District Offices.

Mr. Jerry Barber

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May 7, 2002

Recommendation One:

Develop quantifiable goals for major initiatives, and establish reliable means of measuring performance to determine whether the initiatives are achieving their goals.

Response:

We agree this is a reasonable objective. We believe that the Data Warehousing initiative will provide the necessary support tools and infrastructure to accomplish this objective.

Recommendation Two:

Develop and implement comprehensive management reports, based on accurate and reliable data, to measure and monitor Division staff productivity and revenue collections.

Response:

We agree with this recommendation, and are working toward implementing it within the context of the Department's Data Warehouse initiative.

Recommendation Three:

Expedite steps to implement a statewide system of district office case assignment that reflects case priority.

Response:

We are pleased to report that the recommended enhancement to our District Office collection case assignment process has been implemented in all of our offices.

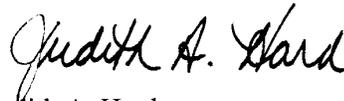
Recommendation Four:

Establish and use benchmarks to measure customer service in the district offices.

Response:

We agree. Steps are being taken to develop and implement realistic and cost-effective customer service measures in our District Offices.

Sincerely,



Judith A. Hard
Executive Deputy Commissioner