New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of the Treasury
Division of Revenue

July 1, 2004 to March 30, 2007

Richard L. Fair
State Auditor
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of the Treasury, Division of Revenue for the period of July 1, 2004 to March 30, 2007. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
Assistant State Auditor  
August 22, 2007
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Department of the Treasury
Division of Revenue

Scope

We have completed an audit of the Department of the Treasury, Division of Revenue for the period July 1, 2004 to March 30, 2007. The division has revenue processing responsibilities for the Department of Environmental Protection, the Department of Labor and Workforce Development, the Division of Taxation, and the Motor Vehicle Commission. Other responsibilities of the division include the collection of delinquent non-tax debts and the operations of Business Services (formerly Commercial Recording).

Objectives

The objectives of this audit were to verify compliance with the internal policies and procedures of the Division of Revenue and to determine adherence to the terms of the collection service contracts. We also tested for resolution of a significant condition noted in our prior report on the Division of Revenue dated July 24, 2001 and our prior report on Statewide Collections dated July 12, 2005, which included three conditions which directly impacted the Division of Revenue.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the Office of Management and Budget, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of agency records. We also read the
budget message, reviewed financial trends, reviewed the prior audit reports for necessary compliance items and interviewed agency personnel to obtain an understanding of the program and the internal controls.

Our audit included a review of the processing of wage reports and transmission of wage data to the Department of Labor and Workforce Development. We also audited the collection of non-tax debts which included the administration of vendors contracted to perform collection services.

A nonstatistical sampling approach was used. Our samples were designed to provide conclusions concerning internal policies and procedures of the division and to determine the propriety of the contingency fees charged in connection with the collection service contracts. Sample populations were sorted and division records were judgmentally selected for testing.

To ascertain the status of findings included in our prior reports, we identified corrective action, if any, taken by the division and performed tests to determine if the corrective action was effective.

Conclusions

We found the division is complying with its internal policies and procedures, and is administering the collection service contracts in accordance with the terms of the contracts. In making these determinations we noted certain inefficiencies meriting management's attention. In addition, we noted that the Department of the Treasury has taken measures to comply with the four issues previously reported in the Division of Revenue report and the Statewide Collections report, but full compliance has not yet been achieved for three of these issues which have been updated in our current report.
Identification of Non-tax Debt

The Statewide Collections report noted that there was no requirement on the part of state agencies to utilize the collection services administered by either the Division of Revenue or the Division of Law. Circular Letter 06-03 was issued by the Office of Management and Budget and became effective July 11, 2005. This circular requires departments to maintain computerized databases for non-tax debt and standardizes the minimum information required for each account. After a department has attempted collection for a period of 90 days, the account information is to be forwarded to the Division of Revenue. Non-tax debts remitted to the division are recorded on a database known as the Revenue Delinquent Invoicing System (RDI). The state has contracts with two vendors to provide initial and secondary collection services for these accounts. The division also administers the Set-Off of Individual Liability (SOIL) program which identifies tax refunds and rebates payable to individuals who have outstanding balances owed to agencies that have submitted the appropriate documentation to the division.

Prior to the issuance of the circular letter, 23 agencies from nine departments had $282 million recorded in RDI. As of January 2007, 36 agencies from the same nine departments had $533 million recorded in RDI. The majority of the increase was attributed to additional balances identified by the Department of Corrections. The Department of the Treasury now sends monthly notices to participating agencies reminding them of their responsibilities and recently requested agencies to provide the department summary documentation of all monies owed to them. That request has elicited responses but the results of those responses are not yet available.

While it appears that the department has taken significant steps to identify and report
outstanding receivable balances, cases remain unremitted to the Division of Revenue as evidenced by:

- Office of the State Auditor reports on audits on the Department of Personnel and the Division of the State Lottery which identified non-compliance with the circular letter.
- Eight of 17 executive branch departments not submitting receivable records to the division even though four have reported a receivable figure to the Treasury’s Division of Administration.
- The state’s comprehensive financial system for fiscal year 2006 listed over 1700 revenue sources totaling $47.8 billion of which 450, totaling $2.6 billion, represented licenses, fees, and service assessments which have a high likelihood to have receivables. The current list of accounts on the RDI system contains only 74 of these sources totaling $188.9 million with receivable balances. We do not maintain that there are over 370 missing categories. However, we do believe that this indicates an increased risk that agencies are not reporting receivables as required.
- The Department of Health and Senior Services has ceased to submit cases associated with the Pharmaceutical Assistance to the Aged and Disabled (PAAD) program to SOIL. Although new legislation impacting the program reduces the number of receivable cases, it would not eliminate all receivable balances.
We recommend that the department enhance its efforts to identify receivables from all sources and to enforce the requirements of Circular Letter 06-03.

SOIL’s Inability to Interface with User Agencies

The Statewide Collections audit reported that the Set-off of Individual Liability (SOIL) system lacks the ability for real-time interaction by user agencies. Developed in 1981, the system adequately handles the task of identifying potential set-offs, but the lack of a user interface necessitates annual submissions of all outstanding debts, including those submitted in the previous year, by user agencies. Manual card exchanges between the division, debtors and user agencies are required. A previous attempt to update the system was abandoned.

We found that the system itself remains unchanged since that report. As part of Office of Management and Budget Circular Letter 06-03, each user agency is required to develop a computerized database of accounts receivable and it specifies the minimum information required. The lack of SOIL’s ability to interface with other systems will lessen the benefits of that initiative.

We continue to recommend an assessment of the computer needs of the division. Any application selected should provide the ability to interface with user agencies.
Wage Garnishments

The Statewide Collections audit recommended that the division utilize other collection options at their disposal, including wage garnishments. Recent legislation enacted July 2005 authorized the Department of the Treasury to obtain certificates of debt (COD) on behalf of the agencies to which the debts are owed and the option to file wage execution applications through the Office of Administrative Law rather than the Superior Court. The division initiated garnishment actions on over 700 accounts that had CODs already on file from the Office of the Public Defender and the Office of Insurance Fraud. These debts totaled $2 million and the division reported that $300,000 had been collected as of January 2007. The division has not implemented an ongoing process for additional CODs and wage executions. There are specific criteria based on family status and income as to how much debt may be garnished through wages. The minimum earnings necessary to garnish wages is $2550 per quarter. We compared debtor files maintained on the Revenue Delinquent Invoicing System with wage reporting records for the second quarter of 2006 for individuals with reported wages of at least $10,000 for the quarter. This comparison matched over 12,000 cases with debts totaling $21.4 million. Eliminating those cases with debt less than $5000 resulted in 327 cases accounting for $15.1 million in debt for which 214 had no collection activity and 58 had paid less than $500. These individuals had average 2006 wages of $60,675, including seven individuals whose earnings exceeded $200,000. Improved collection results should be attainable from these individuals.

Recommendation

We recommend the division routinely use system matches to identify debtors with income, and determine and initiate the best option available to process the CODs and wage garnishments.
Vendor Collection Process

The state determined that the services of collection agencies were required because the state agencies do not have adequate resources. Delinquent account information is transferred to the primary vendor within 48 hours of input onto the Revenue Delinquent Invoicing System (RDI). Pursuant to the primary vendor contract, accounts which do not have collection activity (payments) for over 12 months after assignment shall be returned to the Division of Revenue where they will become available for a secondary vendor to provide collection services. A test of compliance with this requirement noted that 25 percent of cases with no collection activity for over 12 months were not returned for reassignment to the secondary vendor. Therefore, all contracted resources available to provide collection services are not fully utilized.

Recommendation

We recommend the division enforce the contract provision to identify accounts which are inactive over 12 months and ensure that they are transferred to the appropriate collection vendor. Future collection service contracts should include a penalty clause against the vendor for not complying with contract provisions.

RDI Status Codes

The Revenue Delinquent Invoicing System (RDI), which captures the division’s non-tax debt, contained 1.3 million records as of January 2007. After contract vendors apply collection procedures to the receivables, they record a variety of status codes which are designed to indicate the final disposition of the collection efforts. The absence of a status code indicates that an account is still considered active. Our review of the RDI data indicated that of the 430,000 cases with no status codes, 47 percent
had no payment activity posted to the account in over two years. Without intermediate status codes available indicating information such as the number of days the vendor has a file or the number of attempts to contact the debtor, the blank code implies that the probability of collection of these older debts is equal to debts recently entered onto the system. Additional codes would provide division management with data useful in monitoring the vendors’ collection activities and in identifying debts that should be considered for write-off.

Recommendations

The division should establish status codes that would provide additional information regarding the actual account status so that management may improve monitoring of the accounts and determine more effectively which accounts should be written-off.
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Department of the Treasury – Division of Revenue

Dear Mr. Eells:

Thank you for forwarding the subject report for our review. The Division of Revenue welcomes all opportunities to streamline and improve its operations, and in this connection, we truly appreciate the diligent and professional manner in which your staff conducted the audit of our operations. We had an open and enlightening dialogue with the audit team, and feel that we can productively leverage this dialogue to enhance our programs.

Our response to the Office of Legislative Services’ recommendations follows:

Identification of Non-Tax Debt

Audit Recommendation: OLS presents general evidence that a number of executive branch agencies are still not transferring non-tax debt to the Division of Revenue (Division) as required. Therefore, it is recommended that the Division enhance its efforts to identify receivables from all sources and to enforce the requirements of Circular Letter 06-03.

Response: Efforts to build on the Division’s already substantial work in this area are well underway. As noted in the audit report, the Division is engaged in a project with the Office of Management and Budget to re-inventory and classify non-tax debt, and to follow up with non-compliant agencies. The Division anticipates that this joint effort will be completed during the course of FY08.

Please visit the Division of Revenue's web site at www.state.nj.us/treasury/revenue.  
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Status of the Set-Off Of Individual Liability (SOIL) Data System – Inability to Interface with User Agencies

**Audit Recommendation:** OLS recommends that the Division assess its computer needs in this area, and notes that any application selected should provide the ability to interface interactively with user agencies rather than via the current batch-oriented method.

**Response:** The Division concurs that the SOIL should be updated. While there is currently no budget for a system re-write, in the short term, the Division will explore incremental upgrades to the batch system, such as more frequent update cycles, which may go a long way toward improving the program. The Division will also review previously documented system re-write specifications, develop revised cost estimates for system development based on the specifications and assess the feasibility of funding a re-write initiative.

Wage Garnishments

**Audit Recommendation:** OLS recommends that the Division routinely use system matches to identify debtors with income, and determine and initiate the best option available to process Certificates of Debt and wage garnishments.

**Response:** OLS’ recommendation is in line with the Division’s view on wage garnishments. Based on an analysis of wage garnishment actions taken during the audit period, the Division believes it can construct a focused, cost-effective system for pursuing wage garnishments, on an annual or semi-annual basis. It is anticipated that an on-going system will be implemented during the course of FY08.

Vendor Collection Process

**Audit Recommendation:** OLS recommends that the Division enforce the contract provision to identify accounts which are inactive over 12 months and ensure that they are transferred to the appropriate collection vendor. OLS further recommends that future service contracts include a penalty clause against the vendor for not complying with contract provisions.

**Response:** The Division currently transfers non-tax debt routinely, on a timely basis. The Division will also review, and if needed, revise contract penalty clauses during future procurement cycles.

Non-Tax Debt Database (RDI) Status Codes

**Audit Recommendation:** OLS recommends that the Division establish status codes that would provide additional information regarding the actual status of non-tax debt accounts so that management may improve monitoring of the accounts and determine more effectively which accounts should be written off.
Response: The Division agrees that the non-tax debt portfolio should be actively managed and structured to provide sound management reporting and accurate write-off processes. However, it may well be that the current system structure (including the case tracking resources of contract vendors) can adequately address the Division’s needs in this area. The Division is in the process of completing the first large-scale write-off of non-tax debt. The effort should be completed by September 2007. Once uncollectible cases have been written off, the Division will be in a better position to determine whether there is a need for more detailed case tracking of the remaining non-tax debt cases, or if the current system is adequate and cost-effective for case tracking.

Please feel free to contact us if you have any questions or require more information on our response.

Once again, we would like to express our thanks for the professional and courteous work of the OLS audit team.

Sincerely,

[Signature]

James J. Fruscione, Director

C:  B. Abelow, State Treasurer
    M. Davis, Chief of Staff
    C. Chianese, Associate Deputy Treasurer
    J. Severino, Assistant Director, Revenue Management Policy