

Chapter 3

Ministry of Finance

Section 3.11

Tax Collection

Background

Taxes are the province's largest source of revenue. The Ontario Ministry of Finance (Ministry), through its Collections Branch (Branch), is responsible for collecting a significant portion of the unpaid taxes owed to the province. The Branch's head office is in Oshawa, with regional and district offices in Toronto, London and Ottawa. The Branch's collections process involves initially sending notices by mail, contacting the taxpayer by phone, and sometimes visiting in person. If these actions fail to recover amounts owing, collectors have other means at their disposal, such as garnishments or registering liens and warrants for seizure and sale of the taxpayer's property.

Accounts are prioritized on the basis of risk, using criteria such as the amount owing, number of times or length of time in collections, whether there is a history of broken promises, and if any legal action has already been taken. Once their priority has been set, the accounts are assigned according to collectors' seniority and experience.

As of March 31, 2012, approximately 90% of the taxes owing that the Branch was responsible for collecting related to Corporations Tax and Retail Sales Tax. The Canada Revenue Agency (CRA), which is responsible for collecting personal income tax on

behalf of the province, also began administering Corporations Tax on behalf of the province in January 2009. Similarly, in July 2010 the Harmonized Sales Tax, also administered by the CRA, replaced the provincial Retail Sales Tax. As a result, approximately 75% of the Branch's staff of almost 400 were transferred to the CRA effective March 2012. However, the Ministry remains responsible for collecting Corporations Tax and Retail Sales Tax amounts owing prior to the transfer of the administration of these taxes to the CRA. The Ministry expects that by 2014 it will have wound down most of its work on collecting these amounts.

In the 2011 Ontario Budget, the government proposed centralizing the collection of all government non-tax revenue within the Ministry of Finance. Under this proposal, the Ministry's Collections Branch would continue to collect taxes that it administers, but would also become responsible for collecting non-tax revenue on behalf of other provincial ministries. At the time of our audit, the Ministry of Agriculture, Food and Rural Affairs was the first ministry scheduled to transfer non-tax receivables—in this case, overpayments to crop producers totalling approximately \$29 million—to the Ministry of Finance in fall 2012.

Audit Objective and Scope

Our audit objective was to assess whether the Ministry of Finance (Ministry), through its Collections Branch (Branch), had adequate systems, policies and procedures in place to:

- maximize the recovery of taxes owed to the province; and
- reliably measure and report on the effectiveness of these collection efforts.

Ministry senior management reviewed and agreed to our objective and associated criteria.

The Branch's head office in Oshawa is responsible for accounts representing about 80% of the taxes that the Branch is responsible for collecting. Our audit, therefore, focused on a review and analysis of relevant collection accounts at this office, its administrative policies and procedures, as well as discussions with appropriate staff. However, we also reviewed a number of accounts assigned to collectors in the Branch's regional and district offices.

The scope and extent of our audit work also took into account several recent initiatives by the Ministry. The Branch hired a consulting firm in 2009 to review its operations and recommend best practices and potential collection tools from jurisdictions similar to Ontario. In 2009, the Branch also co-founded the Inter-Jurisdictional Tax Operations Network (ITON), whose membership includes 11 American states and seven Canadian provinces, to share knowledge about the collections process. As part of the audit, we reviewed and assessed best practices identified through ITON surveys and the external review commissioned by the Branch. In August 2010, the Ministry's Internal Audit Division conducted a review of the collection processes of accounts deemed to be low-risk. This division also annually reviews the Ministry's allowance for doubtful accounts and the write-off process. And in 2011, in anticipation of an expanded role for its Collections Branch, the Ministry commissioned an

accounting firm to assess and identify the structure of a centralized collection service as proposed in the 2011 budget.

We also reviewed recent reports on effective collection practices from associations that represent private collection agencies in North America.

Summary

Over the last five years, the province has generated about \$330 billion in taxation revenue, of which the Ministry of Finance's Collections Branch (Branch) collected about \$6 billion, with the majority of the remaining amount being remitted voluntarily. Although some write-offs are to be expected in any collection process, the Branch expects that it may need to write off up to \$1.4 billion of the \$2.46 billion in taxes owing to the province that the Branch was responsible for collecting as of March 31, 2012. The \$1.4-billion amount is predominantly made up of older accounts that have accumulated over a number of years, and it has been previously expensed in the government's financial statements.

In recent years, the Branch has taken some initiatives to strengthen its collections process. In 2008, collection activity for all tax statutes except Corporations Tax and Self-employed Health Tax migrated to a new system called OntTax. With the implementation of OntTax, the Branch has improved how it prioritizes and assigns accounts to collectors. The Branch has also recently developed guidelines to assist collectors in carrying out and documenting collections activities, as well as implementing a tool that analyzes an account's collection history to predict the likelihood of payment.

To understand why the Branch needed to write off a significant amount of taxes owing, we examined the collection process both for active accounts and for those that the Branch was considering writing off. We found that in most cases we reviewed, the collection actions taken were not timely and the enforcement tools available were not utilized

fully. Some of our more significant observations are as follows:

- Taking prompt action is vital in collecting debts. Research shows that the probability of full collection on a delinquent account drops dramatically as time passes. Our work indicated that once an account entered collections, it took an average of seven months for collectors to attempt to reach the taxpayer by phone. We also noted that in more than two-thirds of the cases in our sample, there was at least one instance where no collection action was taken for six months or more.
- Visiting the taxpayer's premises will often increase the likelihood of collecting the amount owing. Field visits were warranted but were not made in a number of accounts that we reviewed. For example, the Branch tried unsuccessfully for nearly two years to reach by phone a taxpayer who owed \$100,000 in Retail Sales Tax and had broken a payment arrangement. Making prompt field visits to the taxpayer's retail or business location would be a more effective strategy, especially when significant amounts are involved.
- The Branch had in most cases registered liens and warrants on properties appropriately when such action was considered necessary. However, in a number of the cases that we reviewed, the Branch did not enforce warrants for the seizure and sale of property because of concerns for the viability of the taxpayer's business and the impact on the taxpayer's ability to pay outstanding amounts. Even when businesses had ceased to operate, we noted cases where the Branch still failed to enforce existing warrants to determine whether any assets remained to help pay the debt.
- The Branch may arrange interim payment plans if the taxpayer has outstanding returns to file or needs time to determine a permanent payment arrangement. Payment arrangements were in place in nearly half of the accounts that we reviewed. However, contrary

to Branch guidelines, multiple interim payment arrangements that covered only a small portion of the total debt had been in place for extended periods in many of these accounts.

- The Branch did not always make full use of partnership and information-sharing agreements with third parties. For example, the Branch may seek to have a delinquent taxpayer's motor vehicle dealer or liquor licence suspended or revoked. We noted cases where the Branch did not request such action on a timely basis, or at all, after normal collection efforts had been exhausted.

Corporations Tax and Retail Sales Tax make up 90% of the Branch's tax-receivable inventory. Responsibility for administering these taxes was recently transferred to the Canada Revenue Agency (CRA), but responsibility for collecting the amounts owed to the province pre-transfer remains with the Branch. As a result of the transfer, the Branch recently lost three-quarters of its workforce, including managers, collectors and support staff. Of the remainder, more than one-third is management and support staff, and the caseloads of collectors have in many cases doubled and in some cases tripled. This may result in even more write-offs than currently expected. The Branch received approval in the 2009/10 fiscal year to hire temporary employees to compensate for the loss of its personnel to the CRA. At the time of our audit, the Branch had not fully evaluated its post-transfer staffing needs and, as a result, no additional staff had been brought on board.

In order to oversee collection activities effectively, managers should have access to sufficient and timely operational and performance information. However, we found that reports produced by the Ministry's information systems did not adequately support the oversight of the collection function. The Branch's performance measures are also not sufficient to properly evaluate collection efforts at the branch level and at the individual collector level.

OVERALL MINISTRY RESPONSE

The Ministry appreciates the recommendations made by the Auditor General to improve the collections function as we move toward the goal of centralized collections of tax and non-tax debt, as proposed in the 2011 Ontario Budget.

Of the \$1.4 billion in write-offs referenced in the Auditor General's report, \$600 million has been approved for write-off in 2012. Of the remaining \$800 million, approximately \$400 million is in bankruptcy/insolvency proceedings subject to federal legislation and from which Ontario may receive some future proceeds; \$200 million is still in active collection; and the remaining \$200 million is slated for write-off because progressive collection action has been exhausted. Furthermore, prior to writing off accounts, the Branch registers legal actions (personal property liens and warrants of seizure and sale) to secure the Crown's interest should any undisclosed assets be identified. Historically, this has resulted in the recovery of monies from written-off accounts.

In recent years, the Collections Branch has worked to enhance its processes, tools and best practices to improve the collections process. For example, the tax administration system, Ont-Tax, implemented in November 2008, provides the functionality for an automated monthly statement for all accounts with a balance, along with automated letters detailing specific actions on the account to encourage debtors to make contact with the Branch and resolve their tax obligations. The Branch has also introduced data analytics and performance measures, and initiated and led regular meetings of an inter-jurisdictional group of North American collection administrators to identify and leverage best practices specific to collections operations.

Detailed Audit Observations

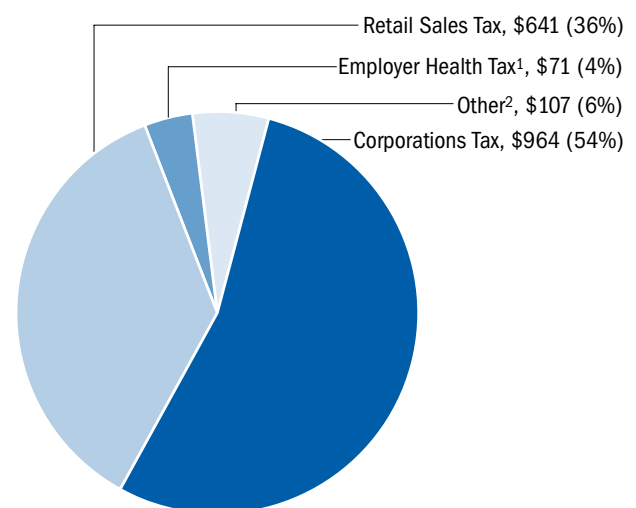
The province generated approximately \$330 billion in taxation revenue over the last five years, of which the Ministry of Finance's Collections Branch (Branch) collected about \$6 billion, with most of the remaining amount being remitted voluntarily.

As of March 31, 2012, the total amount of the taxes owing that the Branch was responsible for recovering was \$2.46 billion. However, of this total, about \$680 million has been deemed uncollectible and therefore is to be written off. Staff are focusing their collection efforts on the remaining \$1.78 billion in active accounts, of which the Branch estimates that another \$720 million may need to be written off.

Corporations Tax and Retail Sales Tax make up most of the active amounts owing, as shown in Figure 1. Because administration of these taxes has been transferred to the Canada Revenue Agency, the Branch's current priority is to wind down the existing pre-transfer inventory of accounts by 2015.

Figure 1: Active Amounts Owing by Tax Statute as of March 31, 2012

Source of data: Ministry of Finance

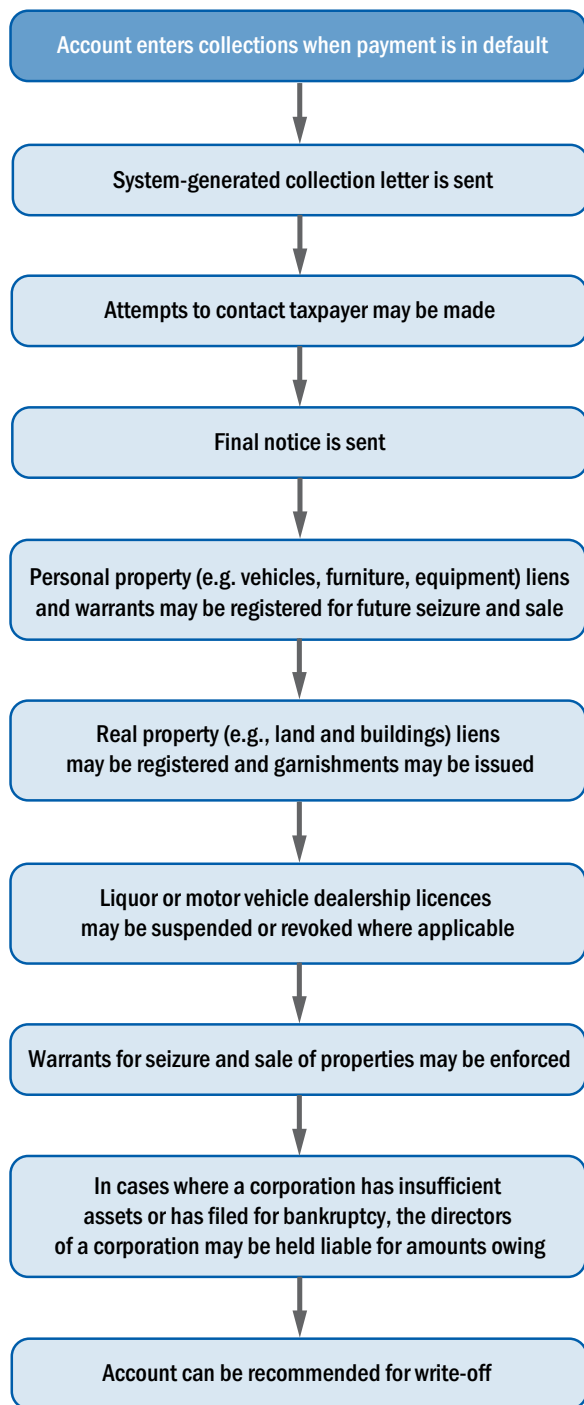


1. Includes Self-employed Health Tax (SEHT).

2. Includes Motor Fuels and Tobacco Tax, Land Transfer Tax, Mining Tax, Beer and Wine Tax.

Figure 2: Collections Process

Source of data: Ministry of Finance

**Note:**

At any point in the process, a collector is encouraged to attempt to negotiate a payment arrangement, and can:

- obtain security, e.g., in the form of a bank guarantee or a letter of credit;
- conduct a field visit to, e.g., verify taxpayer information, review books and records, or inspect assets; or
- refer the account for an audit. If fraud is suspected, the account may be referred for special investigation.

For the most part, it will assess the need to write off accounts that are old and where the likelihood of collecting is low, and then focus efforts on the remaining accounts.

COLLECTIONS PROCESS

Overview

The flowchart in Figure 2 illustrates the process that the Branch typically follows in collecting amounts owed.

The timeliness of collection actions is the most important factor in successful recovery of amounts owing. A recent survey of its members conducted by an association that represents commercial collectors responsible for 80% of the claims in the United States found that the probability of full collection on a delinquent account drops dramatically as time passes. Its survey results indicated that after only three months, the probability of collecting on an account drops to less than 70%; after six months, collectibility drops to about 50%; and after a year, it drops to a little over 20%. After two years, the probability of full collection on a delinquent account is less than 10%. The association noted that other keys to successful collections include keeping credit records, such as addresses and contact information, current; periodically reviewing collection policies and procedures, as well as rigid adherence to these policies; and ensuring that commitments of a final payment accompany all partial payments.

As shown in Figure 3, as of March 31, 2012, only about \$390 million or 22% of the active amounts were less than a year old, while approximately \$925 million or more than half were two years old or more. Due to the lower success rate in collecting older accounts, the Branch estimates that \$720 million (mainly consisting of Retail Sales Tax and Corporations Tax) of these active amounts owing will also need to be written off. Combined with the more than \$680 million already scheduled to be written off, this means that the Branch will need to write off \$1.4 billion of the \$2.46 billion in taxes owing to the province as of March 31, 2012.

Figure 3: Age of Active Accounts Receivable as of March 31, 2012

Source of data: Ministry of Finance

Age	Active A/R (\$ million)	%
Less than 1 year	391	22
1 year to less than 2 years	361	20
2 years to less than 4 years	343	19
4 years to less than 10 years	451	25
10 years and older	131	8
Subtotal	1,677	
Other*	107	6
Totals	1,784	100

* Includes accounts whose age could not be determined.

Collection Activities

The Branch has taken steps in recent years to better guide collectors through the collections process by, for example, developing procedures for activities such as carrying out searches and registering liens and warrants on properties. The Branch has also established standards to ensure that pertinent information from collection activities is documented fully and properly.

To understand why the Branch's collection efforts have not been successful in recovering a significant amount of taxes owing, we examined the collection process through a review of the active accounts as well as accounts that the branch has deemed uncollectible. In most cases, collection actions should have been initiated sooner and the available enforcement tools used more effectively.

- The sooner that collectors establish contact with a delinquent taxpayer, the greater the chance of collecting on that liability. In the accounts that we reviewed, after the system sent collection notices automatically, it took an average of seven months for collectors to attempt to reach the taxpayer by phone. In several cases this initial contact was made two to five years after the account entered collections. We also noted that after the
- initial contact, in more than two-thirds of the accounts that we reviewed there was at least one instance where the account was not touched for six months or more. The average length of time where there was no activity on the account in these cases was 11 months.
- Visiting the taxpayer's premises is often necessary to verify information about the client and the state of the business and, in some instances, to determine whether there might be assets that could be used to help recover amounts owing. The 2009 external review of Branch operations noted that field visits early in the collection process add the most value when businesses are still in operation and assets remain in place, but that staff tend to exhaust all options from the desk before progressing to a field visit. Indeed, in a number of cases that we reviewed we felt that field visits were warranted but were not undertaken. For instance, in one case the Branch negotiated a payment arrangement of \$2,400 a month in October 2009 with a client who owed \$100,000 in Retail Sales Tax. However, after paying only a little more than \$5,300, the client made no further payments. Over the next 22 months, the Branch attempted to reach the taxpayer by phone without much success. An immediate field visit would have been a more effective strategy for attempting to establish contact with the taxpayer sooner. The taxpayer finally contacted the Branch in February 2012 only because the renewal of the establishment's liquor licence was in jeopardy due to the debt. At the time of our audit, this amount was still outstanding.
- The Branch may take legal actions such as registering liens on properties and warrants for their future seizure and sale if the collector is unable to contact the taxpayer or identifies a risk of loss. The Branch may also take these legal actions when a payment arrangement cannot be negotiated with the taxpayer or an existing agreement is broken. For the accounts

that we reviewed, we noted that the Branch had in most cases registered liens and warrants on properties appropriately when such action was considered necessary. However, we noted in a number of the cases we reviewed that the Branch had not enforced warrants for seizure and sale of properties, for fear of putting the taxpayer out of business and thereby reducing any opportunity to collect amounts owing. While we agree that collectors must exercise judgment in enforcing warrants, we noted that in several instances businesses had ceased to operate but the Branch still failed to enforce existing warrants. For example, in one case a restaurant owner broke a payment arrangement after paying only 5% of a \$522,000 tax debt. After several attempts in 2011 to contact the taxpayer, the Branch learned that the company had closed its bank accounts. While the Branch did revoke the restaurant's liquor licence, it did not enforce warrants that had already been registered for the seizure and sale of property even though there may well have been assets available to help pay the debt.

- Directors of companies can be held liable for certain tax amounts owing if previously registered warrants are enforced and no assets are found, or if the company declares bankruptcy and the Branch files a proof of claim against its assets within six months. In several cases, we noted that the Branch could not pursue this option because it had not enforced the warrants it had registered on properties. One company that owed \$384,000 in taxes filed for bankruptcy, but the Branch failed to file a proof of claim in time and therefore lost any opportunity to recover taxes owing by this method.
- In certain cases where the taxpayer is willing to pay amounts owing but cannot do so immediately or in full, the Branch may negotiate an agreement with the taxpayer for the payment of the amount owing over a period

of time. Interim payment plans can also be arranged if a taxpayer has outstanding returns to file or needs time to determine a permanent arrangement. According to Branch guidelines, interim payment plans are only a short-term measure and do not satisfy the taxpayer's outstanding liability to the province. Payment arrangements were in place in nearly half of the accounts that we reviewed. However, multiple interim payment arrangements that covered only a small portion of the total debt had been in place for extended periods, which was contrary to Branch guidelines. According to the 2009 external review of the Branch, some U.S. jurisdictions use automated debit payments, which have been found to significantly reduce the default rate on payment arrangements. At the time of our audit, the Branch had not formally considered adopting this practice.

Use of Third-party Information

The use of third-party information to corroborate taxpayer information, locate an individual or business, or obtain other data is a critical component for successful collection.

Once an account enters collections, the Branch has access to the Ontario Business Information System maintained by the Ministry of Government Services, to the Ministry of Transportation's driver and vehicle licensing and registration databases, and to the Municipal Property Assessment Corporation's database. Although we found that the Branch uses these databases to search for individuals and businesses and any related assets, it did not always commence the searches on a timely basis. In our review of a selection of accounts, the average length of time between an account entering collections and the first search was 12 months.

For a number of years, the Branch has had partnership agreements with some provincial agencies and the Canada Revenue Agency (CRA) to assist its collection effort, as shown in Figure 4.

Figure 4: Partnership Agreements for Assisting the Collection Effort

Source of data: Ministry of Finance

Agency	Year Effective	Purpose of Agreement
Alcohol and Gaming Commission of Ontario (AGCO)	2003	Ensures that applicants will not be granted a liquor licence renewal or be able to transfer an existing licence until they resolve any tax arrears or tax returns in default.
Ontario Motor Vehicle Industry Council (OMVIC)	1996	Allows the Ministry to recommend that a motor vehicle dealer's right to sell in Ontario be revoked if they fail to resolve any tax arrears.
Canada Revenue Agency (CRA)	1982	Revenue sharing: Enables sharing of proceeds where both the CRA and the Ministry have taken collection action against a common debtor.
	1998	Revenue set-off: Allows for set-off of revenue from the CRA to recover debts owed to the Ministry, and vice versa.

However, we found the Branch did not make full use of the avenues available through its partnership agreements. In several cases where taxpayers held a vehicle dealer registration issued by the Ontario Motor Vehicle Industry Council (OMVIC) or a liquor licence issued by the Alcohol and Gaming Commission of Ontario (AGCO), the Branch did not initiate having the licences revoked on a timely basis, or at all, after normal collection efforts had been exhausted. For example, the Branch warned a liquor licensee who owed \$1.1 million in Retail Sales Tax that it would apply to the AGCO to have the licence suspended or revoked if the taxpayer did not contact the Branch within 30 days. For approximately six months after receiving the warning letter, the taxpayer did not respond, yet the Branch did not begin proceedings to suspend or revoke the liquor licence. Subsequently, after repeated attempts by the Branch over a one-and-a-half-year period, the taxpayer agreed to a payment arrangement. However, the taxpayer defaulted after making only three payments totalling approximately 5% of the debt outstanding. Again at this point, the Branch did not take any action to have the liquor licence suspended or revoked. Two years after breaking the payment arrangement, the taxpayer voluntarily surrendered the liquor licence just as it was about to expire. At the time of our audit, this amount was still outstanding.

The Branch also needs to make better use of information that the CRA may have on delinquent

taxpayers. Such information could be used to corroborate details that the Branch has on file or to identify taxpayers' other sources of income. The Branch acknowledged that the CRA exchange of information is a valuable tool that is available for use during the collection process, but that it is not used routinely.

Out-of-province Accounts

At the time of our audit, a Branch analysis revealed that more than \$320 million in taxes was owed by individuals and businesses whose mailing address was outside Ontario. According to the Branch, while it can follow up with these debtors by sending notices or by telephoning, it cannot initiate any legal actions such as garnishing bank accounts or registering liens and warrants on properties if the accounts and properties are also out of the province. The Branch indicated that the current legislative framework may not allow the Ministry or a private collection agency that may be acting on its behalf to enforce debt outside the province. It is exploring options including requesting legislative changes that would permit it to sign inter-provincial agreements to allow it to initiate more effective collection activities to recover its tax debts outside Ontario.

RECOMMENDATION 1

To maximize the recovery of amounts owing, the Ministry of Finance's Collections Branch should:

- make initial contact with delinquent taxpayers sooner and carry out follow-up efforts, including field visits, in a more continuous and timely manner;
- make better use of all available collection and enforcement tools, including partnership and information-sharing agreements with other parties; and
- continue to consider options, including obtaining any legislative authority that may be needed to allow it to initiate legal actions to collect debts from businesses and individuals residing outside the province.

MINISTRY RESPONSE

The Branch will continue to enhance and strengthen its collection processes—for example, by developing best practices to guide collectors in carrying out and documenting collection activities executed or not executed, and by improving timeliness of actions and how work is prioritized based on risk. The Branch will take into consideration the right balance of initiating actions based on third-party agreements that result in compliance, and actions that limit a business's ability to remain operational. The Branch will also initiate a review of its payment arrangements in the fall of 2012, and recommendations based on the results will be implemented by March 31, 2013.

The Branch is continuing to dialogue with the CRA to enhance our information-sharing ability. Process improvements from this dialogue will be implemented immediately. The Branch is also working to expand the tender contract compliance program to the broader public sector to help ensure that grants are not paid out to businesses that owe a tax debt to the province.

It is anticipated that expansion of this program will begin in March 2013.

Ontario legislation is currently not enforceable in other jurisdictions. The Branch will continue to work with legal services and inter-jurisdictional partners to explore options for collecting debt from taxpayers outside Ontario. This issue is to be discussed at the Inter-Provincial Territorial Tax Conference in September 2012. Viable options will be proposed for consideration by decision-makers.

Staffing

On July 1, 2010, the provincial Retail Sales Tax (RST) was replaced by the Harmonized Sales Tax (HST), which the CRA administers. As part of the amalgamation and transfer of the administration of RST, the Branch in March 2010 negotiated an agreement with the CRA in which all Ministry employees affected by the wind-down of the provincial RST received job offers from the CRA. As a result of this agreement, in March 2012 the Branch lost three-quarters of its staff, including managers, collectors and support personnel. Prior to the transfer, the Branch had a workforce of 389 people—264 collection and insolvency officers and 125 management and support staff.

Since the transfer, only 62 collection and insolvency officers remain and are now responsible for the core collection function. Management and support staff number 34 and make up more than one-third of the Branch's workforce. Account caseloads have in many cases doubled for most levels of collection officers since the transfer, and in some cases they have tripled. Such a significant reduction in the Branch's workforce, especially at the collector level, and the consequent increase in caseloads will further hinder the effectiveness of collection efforts on accounts where the probability of recovery still exists, and may well result in even more write-offs than expected at present.

Prior to March 2012, the Branch had a dedicated Field Services Unit of eight field officers who supported the desk collectors by visiting businesses and residences to review clients' records, inspect and appraise assets, and in some cases negotiate payment arrangements. The field officers were also responsible for attending AGCO and OMVIC hearings for the possible suspension of licences when taxes were in arrears or returns were not filed. This unit was eliminated with the transfer of staff to the CRA; the field functions are now handled by senior RST and Corporations Tax (CT) collectors whose caseloads have in many instances doubled, as indicated above. This combination of significantly higher caseloads and additional responsibilities may result in even fewer site visits and additional delays in the desk collection function, further decreasing the likelihood of collecting amounts owing.

The Branch received approval in the 2009/10 fiscal year to hire up to 74 temporary staff up to March 2014. It had hired some temporary staff to work until March 2012 to compensate for its loss of staff as a result of the transfer of the administration of CT to the CRA. However, at the time of our audit, the Branch had not fully evaluated its needs related to the amalgamation and transfer of the administration of RST and, as a result, no additional staff had been brought on board. The Branch informed us in August 2012 that this analysis had been undertaken and actions such as hiring temporary staff were under way.

While other Ontario ministries use private agencies to collect non-tax debt, the Ministry of Finance's Collections Branch does not outsource any part of its collection function. The 2009 external review of the Branch's operations suggested that the Ministry evaluate the use of private agencies for collections. The review scanned practices in seven jurisdictions that had a similar mandate to that of Ontario and found that all used third-party agencies to some extent in their collection efforts. Typically, these jurisdictions used private collection agencies for low-value accounts or accounts where

all other means of collections had failed. Similarly, a study conducted by the Inter-Jurisdictional Tax Operations Network, co-founded by the Branch, found that six of nine North American jurisdictions that were surveyed had considered outsourcing collections on a limited basis as a way to share the workload and increase efficiency—for example, on low-value accounts, accounts located outside the jurisdiction, and accounts where internal collection had yielded minimal results. Some of these jurisdictions have had some success in using private collection agencies on tax debts, but have required legislative authority identifying the information that the jurisdiction could give the agencies prior to outsourcing.

We should also note that the Branch still has to determine the resources needed to fully analyze outstanding defaults—that is, corporations that have not filed returns. Specifically, as of March 31, 2012, there were more than 200,000 CT accounts with approximately 500,000 defaults. At the time of our audit, the Branch had not yet analyzed these accounts to identify the age of the defaults or the filing history of the corporations to determine the likelihood of these defaults resulting in taxes payable.

RECOMMENDATION 2

To mitigate the impact of the significant loss of its staff to the Canada Revenue Agency, the Ministry of Finance's Collections Branch should:

- ensure that temporary staff hired to compensate for the loss continue to have the appropriate skill set and experience to carry out collection duties effectively;
- reassess whether senior collectors, in addition to their regular responsibilities, will be able to carry out required field visits effectively and on a timely basis, and attend hearings for the possible suspension of liquor and motor vehicle dealer licences, especially given their recent significant increase in caseloads; and

- evaluate the use of private-sector collection agencies for certain aspects of its collections function.

In the longer term, the Branch should assess whether its current permanent staff complement is sufficient to maximize the collection of non-tax receivables should its mandate expand to include all government non-tax receivables.

MINISTRY RESPONSE

The Branch is proactively addressing staffing for its accounts receivable function in addition to the Retail Sales Tax wind-down. Seventy-four temporary staff are being recruited to address the remaining accounts receivable inventory to maximize collection efforts and recoveries. Work will be rebalanced by December 2012. The temporary staff will be in place until March 2014.

The Branch had previously considered the use of private-sector collection agencies and determined that it was not a cost-effective or viable option due to privacy issues and the requirement for legislative amendments. As part of ongoing discussions with its inter-jurisdictional colleagues, it will explore the option of strategic use of private-sector collection agencies.

As the Branch continues to pursue the collection of non-tax receivables, staff resourcing will be a key consideration and a component of the implementation plan.

Account Prioritization

The Ministry's Collections Branch primarily uses two stand-alone information systems. Corporations Tax (CT) and Self-employed Health Tax (SEHT) accounts reside in the Branch's older legacy system, the Integrated Collections System (ICS). The Branch's collection responsibility for the remaining tax statutes—for example, Retail Sales Tax, Employer Health Tax and Tobacco Tax—is admin-

istered through a relatively new system called OntTax. Prior to 2008, ICS was the only system used for the administration of tax collection. In 2008, past collection activity for all statutes except CT and SEHT was migrated onto OntTax. The Branch expects to decommission ICS once it has resolved CT amounts owing. OntTax will continue to support the collection and administration of the remaining statutes, and it will be considered in supporting the collection of the province's non-tax amounts owing if the Branch's role is expanded as proposed in the budget.

An effective method of prioritizing accounts based on the collection risk is important in determining the appropriate collections procedures. For example, high-risk accounts should be subject to more aggressive action, whereas a more moderate approach could be used for accounts that are likely to be paid. With the implementation of OntTax and its risk-scoring methodology, the Branch has significantly improved how it prioritizes accounts held in this system and assigns them to the appropriate level of collectors. The Branch has also recently implemented a tool called the Flexible and Integrated Risk System (FAIRS), which analyzes an account's collection history to predict the likelihood of payment. This helps determine the extent of collection efforts that should be committed to that account. For accounts that are closed, FAIRS provides an overview of which collection activities were successful in recovering tax amounts owing. Currently, FAIRS is used only on RST accounts; the Branch plans to start using the tool for the remaining accounts housed in OntTax in 2013. Since ICS does not have formal risk-scoring capability, accounts housed in ICS for the most part continue to be prioritized and assigned to collectors on the basis of dollar value and date of entry into collections.

Through its risk-scoring function, accounts in OntTax are prioritized using criteria such as the amount owing, number of times or the length of time in collections, whether there is a history of broken promises, and if any legal actions have

been taken on the account. Once the priority of an account has been established, it is assigned to collectors in one of three tiers: Tier 1 (low-risk accounts) and Tiers 2 and 3 (medium- and high-risk accounts). However, we noted that once accounts are assigned, collectors often do not use the risk ranking to determine the order in which they work on the accounts.

Since the development of the risk-scoring methodology in OntTax in 2008, the Branch has not updated or formally evaluated it to determine whether this tool prioritizes accounts appropriately. We noted several anomalies in the scoring that indicate a need to review and update the criteria so that collectors can make better use of it to set priorities. For example, risk scoring assesses some of the criteria noted above over the entire history of the account while other criteria are assessed only after 2008, when risk scoring was adopted in OntTax. Also, inconsistency in collection practices affects the score assigned to accounts. For instance, the risk-scoring methodology assigns points to an account every time a notice is sent out. From our review of accounts, we noted a fair amount of inconsistency in the number of notices sent by collectors. As a result, more points had been assigned to some accounts simply because the collector sent more notices; the points assigned did not necessarily reflect the risk associated with the account. We also noted several significant fluctuations in the risk scores without a significant change in the circumstances of the account that would explain the difference.

RECOMMENDATION 3

To ensure the effectiveness of its risk-ranking methodology for prioritizing collection efforts, the Ministry of Finance's Collections Branch should formally assess this methodology to determine whether it is ranking accounts for action appropriately and consistently. The Branch should then develop guidelines to encourage collectors to use the risk scoring to prioritize their work.

MINISTRY RESPONSE

The Branch's Business Enhancement Unit and the staff in the unit who work with the Ministry's automated risk assessment system (FAIRS) will work together to address the Auditor General's concerns. The Branch will review its current methodology and guidelines and make any changes to ensure that collectors prioritize their work in consideration of risks and in ways that will maximize the recovery of taxes owed to the province. The initial review is to be completed by March 31, 2013.

OVERSIGHT OF COLLECTION ACTIVITIES

Sufficient oversight of collectors' work is paramount in ensuring that their efforts are timely and progressive, and that all tools available have been used to recover the most money possible. Supervisory oversight of collection activities consists of two main procedures:

- Semi-annually, collection managers review a sample of each collector's active files. Managers also review specific accounts that collectors have deemed uncollectible to ensure that all collection efforts have been exhausted, or where approval is required for measures such as initiating payment arrangements beyond the collector's authority or initiating and enforcing legal actions.
- The Branch's Performance Analysis Unit (PAU) and the Ministry's Internal Audit Division review accounts that are submitted for write-off to ensure that the amounts are correct, that policies and procedures were followed, and that all collection efforts have been exhausted.

We noted that the managers' semi-annual reviews identified specific issues such as the timeliness of collection actions, incomplete documentation, and failure to use all available tools in the collection effort. Although the managers informed us that they discussed these issues with

the respective collectors, we found no evidence of any required action or follow-up to ensure that collectors were making the required changes. We also noted that there is no overall analysis and related feedback on any systemic concerns identified through the managers' semi-annual reviews or the PAU review of accounts submitted for write-off.

RECOMMENDATION 4

To ensure that collection efforts are appropriate, timely and in compliance with established procedures, the Ministry of Finance's Collections Branch should ensure that collectors document any follow-up action taken in resolving issues identified during reviews of their work. The Branch should also identify any systemic concerns, as well as best practices, from its ongoing reviews of active files as well as accounts that are submitted for write-off.

MINISTRY RESPONSE

The Branch has since introduced a requirement for management to perform a follow-up review with collectors to ensure that collectors make the required changes recommended by management. In addition, the Branch will implement a more formalized process to regularly identify any systemic concerns and best practices, and will work closely with the Business Enhancement Unit and Performance Analysis Unit to improve, communicate and monitor the implementation of best practices.

Management Reports

In order to oversee collection activities effectively, managers should have access to sufficient and timely operational and performance information. However, we found that reports produced by the Ministry's information systems did not adequately support the oversight of the collection function. Specifically:

- ICS, which at the time of our audit was used to administer more than 50% of the Branch's accounts-receivable inventory, can readily produce only pre-programmed "canned" reports. Supplemental reports for basic information, such as requests for listings of accounts with payment plans and legal actions in place, take an inordinate amount of time to produce. Such reports can be produced only through special requests or "tickets" to extract the required data from the system—a costly and time-consuming process. Although the Ministry plans to decommission ICS once most of the CT accounts are resolved, the system's inability to produce information useful for collections activities will pose problems in the meantime.
- Although the reporting of key information on accounts within the OntTax system is substantially better than within ICS, there are still some limitations. Specifically, the amount of the assets on which liens and warrants have been registered prior to the 2008 implementation of OntTax and that have not been renewed or amended since are reported at \$0 even though information exists within the system on the actual amount of the assets on which individual liens and warrants have been registered. Therefore, the Ministry cannot determine the portion of the tax-receivable inventory that is secured by liens or warrants for these accounts. As well, payment plans often do not cover the total amount of the debt owing, even though OntTax reports the total amount of the debt as being covered by the plan. Accordingly, for these situations OntTax does not provide an accurate picture of the tax-receivable inventory that is secured by payment plans. OntTax also does not provide details such as the number, amount and frequency of instalments associated with individual payment plans.

RECOMMENDATION 5

In light of the fact that the OntTax system will continue to support the collection and administration of the remaining tax statutes, as well as the collection of the province's non-tax amounts owing if the Branch's role is expanded, the Ministry of Finance's Collections Branch should work with ministry systems staff to ensure that the system reports provide complete, accurate and up-to-date information on debtors' accounts.

MINISTRY RESPONSE

The Branch's Performance Analysis Unit and Business Enhancement Unit will continue to work closely with ministry systems staff to ensure that the system reports are complete and accurate and will address any concerns in a timely manner.

Performance Measures

The overall mandate of the Ministry's Collections Branch is to ensure efficient and effective collection of outstanding tax liabilities. The Branch does provide some information on its results for a given year—for example, amounts collected and number of accounts cleared or written off, among other things—and compares the results to those of the prior year. However, prior to the 2010/11 fiscal year, the Branch had not set meaningful benchmarks aligned with its mandate against which it could evaluate performance, either for the Branch or for individual collectors. In the 2010/11 fiscal year, the Branch established an overall benchmark performance measure: the total number of accounts resolved as a percentage of new accounts received. Based on the prior year's result and other assumptions, the Branch set a 75% benchmark for this measure up to the 2013/14 fiscal year. While we recognize the Branch's attempt to establish an overall performance measure, we questioned

whether the resulting measure was meaningful given the following:

- It tracks and reports only on results for RST and other statutes that are administered in the OntTax system—less than half of the Branch's accounts-receivable inventory. Therefore, the measure does not provide a complete and accurate representation of the effectiveness of the Branch's overall collection effort.
- The number of RST referrals continues to decrease substantially given the recent transfer of the administration of RST to the CRA. This decrease prevents the Branch from making any meaningful comparison of actual performance with the benchmark. For instance, for the fiscal year 2011/12, the Branch reported that the number of accounts resolved as a percentage of new referrals was 158%. The Branch significantly exceeded its target of 75%, but this could have been due to a significant decrease in new delinquent accounts rather than a significant increase in the collection of existing accounts.

Individual collector performance is measured primarily by the number of clearances (defined as the full recovery of debt). The clearance is credited to the last collector assigned to the account without considering which actions by which collector actually led to the recovery of the debt. This also gives no credit to collectors who were successful in collecting at least part of the outstanding debt. The timeliness of collection activities is measured by whether accounts with balances greater than \$100,000, which make up about 80% of the Branch's total receivables, are subject to some sort of action every 90 days. However, the appropriateness or effectiveness of the collections action taken is not routinely assessed.

Our research on effective collection practices in the private sector indicated that dollar recovery rate is the key consideration in grading the performance of agencies responsible for collections, and that different parameters can be used to calculate the rate. For instance, recovery rates

can be calculated on the entire portfolio of taxes receivable, on closed accounts, on accounts by age, or by region and district office. Benchmarks can be set for the different recoveries and then compared to the actual rates. In addition, reporting on the reasons why accounts are closed or written off can provide valuable insight on the effectiveness of internal processes.

RECOMMENDATION 6

To enable it to better track the effectiveness of its collection efforts, the Ministry of Finance's Collections Branch should have more clearly defined benchmarks and performance measures for collection, both for the Branch itself and for individual collectors. The outcomes should be tracked, evaluated against established benchmarks, and reported periodically.

MINISTRY RESPONSE

The Branch has recently hired a consulting firm to assist in developing a balanced performance measures scorecard for the Branch and for its individual collectors. The Branch will build on the consultation work provided by identifying data elements available from ministry systems and establishing performance measures and benchmarks. The Branch will also attempt to benchmark itself against similar organizations and will be discussing this with its inter-jurisdictional partners in September 2012. The initial review is to be completed by March 31, 2013.