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FINAL NOTICE



General Audit Chamber
Algemene Rekenkamer



PERFORMANCE AUDIT:

**EFFICIENT COLLECTION OF
GOVERNMENT CLAIMS**

NOVEMBER 2019



General Audit Chamber

Algemene Rekenkamer

This document is an English translation of the original Dutch language report entitled: "*Doelmatigheidsonderzoek: Voortvarende Afwikkeling van Vorderingen*". In the event of textual contradictions or any other differences, the original Dutch text will prevail.

November 2019

General Audit Chamber, Juancho Yrausquin Blvd #10, unit 4 & 5.

PREFACE

This report is about the efficiency of Government's collection of claims.

The General Audit Chamber has a legal task to review whether claims and obligations to government are settled efficiently. In our audits of Government's financial statements, we include an analysis of claim collections, however, in 2019 the Board decided to conduct a separate audit on the topic. In 2014, the General Audit Chamber [reported](#) on the optimization of tax revenue. As such, this 2019 audit is a review of that report.

Government is aware of the situation on the collection of claims. In 2019, a Tax transformation plan was drafted to address the bottlenecks in the tax system in its entirety. At the time of our audit, this plan has not (yet) been made public.

The purpose of this audit is to add value in terms of improving the efficiency of claim collection, as well as increasing Government's revenue.

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SUMMARY

In order to achieve its objectives, Government must have staff and resources. That costs money. Ultimately, the estimated expenditures must be covered in the budget. It is in St. Maarten's interest that claims are settled (collected) as quickly as possible.

The purpose of this performance audit is *to determine whether Government's claims are collected with the necessary efficiency.*

Based on our findings, we conclude that Government's claims are **not** being settled efficiently. This means that money remains uncollected. How much is unknown because the account receivable (debtor's) ledger (the bookkeeping) is seriously contaminated, and it is not possible to realistically estimate the size of the outstanding claims.

The cause is found, primarily, in outdated automated systems and databases which are not linked. Other reasons include the enormous case load carried by the collection agents (more than 185.000). This Receiver's Office is therefore unable to devote sufficient time to its core task: collecting money.

This undesirable situation has persisted for years. With the Tax Transformation Plan, Government seeks to realize a complete transformation of the tax system that addresses, among others, efficiency of claim collection.

In keeping with our [methodology](#) we requested a reaction from the Minister of Finance regarding our conclusions and recommendations. The Secretary-General, in responding to the findings, states that they are neither surprising nor contrary to previous findings, however, the intention is to bring about the required improvements with the 2019 Budget.

RECOMMENDATIONS

In view of our findings, we issued the following recommendations to the Minister of Finance:

- Allow the collection agents and bailiffs read-only access of the Civil Registry files;
- Modernize and simplify the automated systems;
- Improve the cooperation and communication between relevant organizational units;
- Systematically clean up the files (database) of the Inspectorate of Taxes and the Receiver's;
- Ensure that clear guidelines are prepared for the cleanup;
- Accommodate all employees of the Receiver's Office at a single location.

The Tax Transformation Plan eliminates bottlenecks. At the time of this report, the plan was not publicly available, despite having been approved by the Council of Ministers on April 10, 2019.¹ We will continue to monitor developments.

¹ Decision sheet of the Council of Ministers dated April 10, 2019, reference: COM090419.

1. THE AUDIT

In Chapter 1, we explain our research methodology and describe the basis, our objectives, as well as the audit question. We explain the audit framework and the content of the chapters in the report.

1.1 THE BASIS FOR THE AUDIT

We issued a report entitled [Optimizing Tax Revenue](#) in 2014. The collection of tax revenues was an element of that review. The authority to ensure the efficiency of claim collection is stipulated in article 24 of the National Ordinance General Audit Chamber.²

1.2 OBJECTIVES

There are multiple objectives for this audit. Firstly, our goal is to provide the Minister of Finance and Parliament with our opinion regarding the efficiency of claim collections. Furthermore, we provide recommendations to the Minister of Finance which part of the process of claim collection could be improved.

1.3 AUDIT QUESTION

We answer the following question in this report:

Are Government's claims being collected efficiently?

We reviewed whether:

- a. The structure of the [internal organization](#) is adequate;
- b. The [accounts receivable \(debtor's\) ledger](#) is reliable and provides information regarding claim settlement;
- c. There are a sufficient number of qualified persons and adequate resources available;
- d. Reporting on the status and progress to the Minister of Finance occurs.

1.4 READING GUIDE

In Chapter 2, we discuss the internal management. We describe, in general, the structure of the collection process. Thereafter we indicate whether this arrangement contributes to the efficiency of collections.

Chapter 3 outlines our findings regarding collections. In Chapter 4, we discuss the Tax Transformation Plan. Our conclusions are presented in Chapter 5, and answer the question: Are Government's claims being collected efficiently?

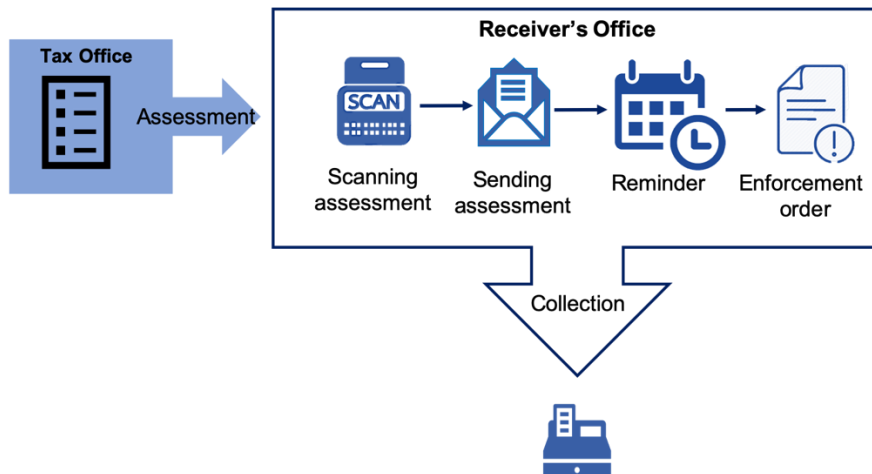
We requested a response from the Minister of Finance. In Chapter 6 we included the Secretary-General's response, supplemented by our epilogue.

² Article 24 National Ordinance General Audit Chamber: The General Audit Chamber will, as much as possible, ensure that the government's claims and obligations are collected with the necessary efficiency.

2. THE INTERNAL ORGANIZATION

The primary processes within the Receiver's Office are executed by three sections, namely Collections, Bailiffs and Accounting. The processes are described in a manual.³ Figure 1 shows a simplified version of the collection and claim process.

Figure 1 – simplified collection and claim process



The assessments (including the names of persons with outstanding taxes) are sent from the Tax Office to the Receiver's Office. Those assessments are scanned and thereafter sent to clients. If payment is not made, reminders are sent to the client. Continued non-payment results in the preparation of an enforcement order which is directed to the client. Subsequently an internal investigation can take place to determine why an assessment is not (being) paid. For example, non-payment can happen when a company ceases to exist or when a person has a change of address.

The structure of the internal organization is adequate, but we have identified risks. The ICT-system (GEFIS)⁴ used by the Receiver has not been maintained in years and its functionality and reliability has not been subject to a recent expert review. One of the projects in the not-yet-public Tax Transformation Plan is meant to ensure the continuity of the current ICT-systems. The plan envisions improvement of ICT. This is further discussed in Chapter 4.

³ Draft Process Description manual, Ministry of Finance, Tax Administration Receivers Office, version 08-2011.

⁴ GEFIS is the account receivable (debtor's) ledger of the Receiver. The account receivable (debtor's) ledger is another name for client administration. A debtor is a person or entity that owes money to Government.

3. FINDINGS ON THE COLLECTION OF CLAIMS

When considering actual claim collections, we identified several significant bottlenecks. These bottlenecks hinder the collection efficiency.

The bottlenecks are:

- a. The different systems are not connected; for example, the tax database, the debtor files and the Civil Registry database. The collection agents and bailiffs are not authorized to, for instance, consult the files of the Civil Registry Department despite a willingness to do so. A possible improvement would be the creation of profiles within the Civil Registry for bailiffs and collection agents using a VPN-connection;
- b. Addresses are not always easy to locate because of the absence of street names and numbers;
- c. There is no direct (read) access at the Chamber of Commerce in order to retrieve information for taxable persons;
- d. The integration of the Tax Office and the Receiver's Office is not sufficiently achieved;
- e. ICT (GEFIS) is outdated (in use since 2002) and is no longer updated;
- f. The Receiver's Office is housed, since Hurricane Irma, at three separate locations ('old office', the new administration building and the Vineyard Building).

As a result of the bottlenecks:

- Collection agents and bailiffs are not able to effectively use their time for their core task; the collection of tax claims. An unnecessary amount of time is spent identifying the correct data to send reminders and enforcement errors to individuals and businesses;
- The accounts receivable (debtor's) ledger is contaminated; the accounts receivable (debtor's) ledger contains a large number of *ex-officio* assessments and outdated items, many of which may not be collectable;
- No reliable and realistic information is available regarding the actual scope of the outstanding, uncollected claims (the inventory as of August 1, 2019, is over 185.000);
- The balance of debtors according to the main administration does not match the sub-administration of the Receiver's Office;
- The Minister of Finance is not regularly informed about the collection of claims and he therefore cannot notify Parliament.

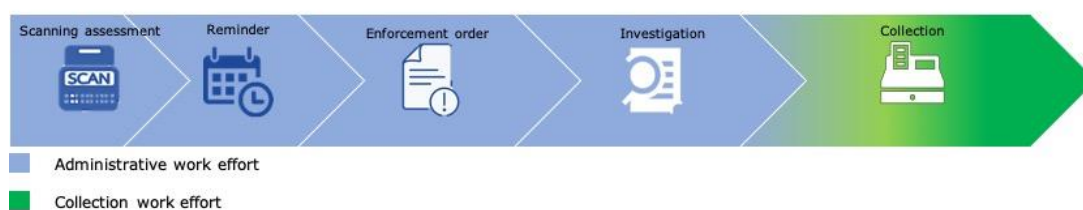
Figure 2 illustrates the level of work effort required for each part of the process where payment remains outstanding and enforcement orders or investigation is needed. The size of the segments in the figure below depict the work effort necessary to execute the various elements of the process. Exact data regarding the work effort is not available. The core task should be collection. Optimally there should be less administrative and more collection activity. Figure 3 shows a more efficient situation.

Figure 2 – Work effort required in the collection process



Ideally, the process should focus more on collection. Improving and streamlining the processes should lead to an increase in revenues.

Figure 3 – More efficient work effort for the collection process



In order to work more efficiently, and in so doing eliminate (a significant part) of the bottlenecks, we recommend the following:

- Allow the collection agents and bailiffs the functionality to consult the files of the Civil Registry;
- Modernize and simplify the automated systems;
- Improve the cooperation and communication between relevant organizational units;
- Systematically clean up the files (database) of the Inspectorate of Taxes and the Receiver;
- Ensure that clear guidelines are prepared for the cleanup;
- Accommodate all employees of the Receiver’s Office at a single location.

The Tax Transformation plan provides a strategy for cleaning up the files and eliminating backlogs.⁵

⁵ Tax Transformation Plan, projects i and ii.

4. THE TAX TRANSFORMATION PLAN

We note that the Tax Transformation Plan, dated December 2018, and approved by the Council of Ministers on April 10, 2019, provides for the elimination of the bottlenecks described in Chapter 3. Table 1 describes the expectations for the successful implementation of St. Maarten’s transformation plan.

Table 1: expectations regarding the successful implementation of the Tax Transformation Plan

Long-term results	Quick wins
Implementation of tax reforms	Structured handling of tax return backlogs, assessments and objections
Transformation tax organizations	Improving processes and work procedures, and strengthening the current organization
Renewal and implementation of ICT facilities	Cleanup of files and detection of tax evaders
Increasing compliance, tax base and revenues	Acceleration of increased revenue by means of active collection and overdue payments

The plan correctly cautions that transformation should not be underestimated. The plan projects the start for the first quarter of 2019 and runs through the end of the fourth quarter of 2021. We note that the implementation has, to date, not started in 2019, and the planned completion date (December 2021) will therefore probably not be achieved.

Total costs are estimated at ANG 10 million and the total investment is ANG 50 million.⁶ The plan dates back to December 2018. The Minister of Finance presented the Tax Transformation Plan on August 7, 2019, despite our request for updates dating back to May 2019. The Minister would have done well to, in keeping with legislation, provide us the plan in a timelier fashion.⁷

⁶ Tax Transformation Plan.

⁷ Article 30, paragraph 2, National Ordinance General Audit Chamber.

5. CONCLUSION

Based on our findings, we conclude that Government's claims are **not** being settled efficiently and efficiently. This means that money remains uncollected. The amount of uncollected money is unknown because of the serious contamination of the account receivable (debtor's) ledger. It is impossible to realistically estimate the scope of the outstanding claims.

The cause of this is not the setup of the internal organization, but rather because the Receiver's Office is forced to inefficiently spend time conducting investigations on the existence and location of persons with outstanding tax claims. Effective research is not possible because of outdated automation and the lack of connectivity between data bases. Other causes are the enormous number of active claims that collection agents are handling (in excess of 185.000), as well as an under capacity (quantity and level) of collection agents and bailiffs.

In the case of [estimated assessments](#) of a high amount, it is not unthinkable that clients are scared off and avoid visiting the Tax Office to provide information or to make a deal.

Ensuring a sufficiency of funds is one of the Ministry of Finance's main tasks. The bottlenecks have existed for years. Under normal circumstances (effective and efficient claim collection), the Minister of Finance possesses reliable information about the status and the progress in settling outstanding claims. Eliminating the causes of the bottlenecks deserves a high priority. Finally, we conclude that there is a statute of limitation risk along with a diminishing willingness among the public to pay on time.

In December 2018, a Tax Transformation Plan was drafted. The developments regarding this plan will be monitored by the General Audit Chamber.

6. REACTION OF THE MINISTER AND OUR EPILOGUE

6.1 THE MINISTER'S RESPONSE

In accordance with our [audit protocol](#), we presented the draft report to the Minister of Finance to elicit his reaction. We received a reaction from the Secretary-General, which is cited in its entirety below:

The memorandum gives an impression of a recently conducted audit by the General Audit Chamber regarding the efficient Government tax collection.

The results are neither surprising nor contrary to previous findings regarding not only at the Tax Inspectorate, but actually the entire financial management system. The Minister and management of the government's financial system are aware of the need for modernization of both the financial management as well as the tax system. As such, priority will be given to these items in the next three years.

The first portion of money to finance the required improvements will be available with the 2019 budget. Multiannual investments are also taken into the account. Although the budget is approved, the financing has not been finalized, thus causing a delay in starting the improvement projects. As such, the end date will move up.

Nevertheless, there is positive energy to tackle these challenges holistically and achieve clear improvement that will ultimately lead to an unqualified auditor statement. With high ambitions, the organization and the commitment of management, as well as the forthcoming financing, we are nearing a solution.

In that sense, the memorandum confirms the shortcomings and provides an incentive to pursue the intended approach. We will take the substantive findings into account as part of our approach towards an efficient collection of claims and related matters.

6.2 OUR EPILOGUE

We wish to thank the Ministry of Finance for their cooperation during this audit.

The situation and improvements are known. However, we believe that for the collection of claims, a number of 'quick wins' are possible. Linking the databases of the Census and/or the Chamber of Commerce, is a good example.

In our opinion, these quick wins do not have to cost a lot of money nor take much time but can improve the efficiency of the work of the collecting agents and bailiffs. In so doing, claims will be collected more efficiently and ultimately meet Government's objective to bring in more revenue.

