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Commonwealth of Puerto Rico Tax Reform Assessment Project

Generic Actual Operating Model

May 30, 2014

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1. Background

On August 17, 2013, the Governor of the Commonwealth of Puerto Rico issued an Executive Order creating a Tax Reform Advisory Group to analyze the current tax system, its rules and administration and report its conclusions and recommendations to build an effective and fair tax system. The Executive Order explicitly recognized the need to take measures to address the fiscal crisis facing the Commonwealth.

On March 18, 2014, KPMG contracted with the Treasury to make an assessment of the Puerto Rican tax structure and to develop a full report and set of alternative scenarios for Treasury to evaluate for a revamped tax system that will provide the desired revenues through a more streamlined and effective system that should also result in more effective oversight.

On the same date, the KPMG team met with the Secretary of the Treasury and her colleagues to discuss in more detail the parameters of the engagement. The Secretary stated that her goals for the project were to:

- Increase revenue to reduce or eliminate the deficit
- Increase Puerto Rico's economic competitiveness
- Have an equitable distribution of the tax burden
- Create a more efficient tax administration

2. Introduction

2.1 Purpose of the Generic Actual Operating Model

The objective of the Generic Actual Operating Model is to describe the current state operating model of the Internal Revenue Area (IRA) and the Contribution Fraud Intelligence Area (CFIA)¹. An Operating Model is a representation of how an organization combines its resources to execute its business strategy and business model to achieve its objectives. KPMG grouped the analysis of the Generic Actual Operating Model into six (6) components. Further detail is provided in Section 5 of this report. The six components are as follows:

1. Services, Functions and Processes
2. Organization and Governance
3. Technology
4. Sourcing and Locations
5. Performance Management
6. People and Skills

The Generic Operating Model serves as the basis for the future state operating model design scenarios for the administration of the proposed changes in the Tax Reform Project strategy documents. The future operating model provides the following benefits:

- Operational focus on performance and primary outputs and deliverables
- Improved organizational structure, processes, governance and capabilities in support of organizational change that enables the administration to achieve their tax reform strategy as well as to sustain increased levels of performance
- Focus on performance, issues and business priorities
- Standardized and consistent organizational processes
- Clear link between tax reform goals and operational measures across the Department
- Motivates the organization to have ambitious yet realistic goals

2.2 Report Scope

KPMG's analysis consisted of the following tasks:

- Meet with key personnel within the Bureaus to understand the IRA and CFIA current operations
- Break "the complex machinery" of the organization into its basic elements
- Identify challenges in IRA and CFIA that may impede future alignment of process owners with a new Business and Operating Model

Observations and recommendations result from the analysis conducted within the following Bureaus in IRA and the CFIA:

- Fiscal Audit
- Taxpayer Services
- Processing

¹ Based on the Organizational Structure provided by the Department of Treasury and approved on February 7th, 2014.

- Collections
- Consumption Tax
- Tax Assistance and Specialized Consults
- Contribution Fraud and Investigations Area

2.3 Document Structure

The report has the following structure:

- A brief description of how we applied our methodologies and toolkits in the analysis of the current Target Operating Model (TOM) and Business Model Canvas of IRA and CFIA, and the Department's Vision and Mission (Section 3)
- The current Business Model of IRA and CFIA which is illustrated using the Business Model Canvas (BMC)² (Section 4)
- The current operating model of the seven bureaus describing the six logical components: (1) services, functions and processes, (2) organization and governance, (3) technology, (4) sourcing and locations, (5) performance measurement and (6) people and skills (Section 5)
- Summary of findings and opportunities to improve IRA and CFIA operations to meet the Vision and accomplish its Mission (Section 6)

² Ostelwalder, Alexander and Yves Pigneur, Business Model Generation. Self Published. 2009

3. Approach

KPMG utilized the following methodologies and toolkits to get a better understanding of the Department of Treasury’s current situation:

- Target Operating Model Design³
- Business Model Canvas⁴

3.1 Target Operating Model Design

A Target Operating Model is a visual representation of an organization’s ‘continuing’ design decisions that are required to execute its business and strategy model, including its structure, functions and relationships and is driven by the Department of Treasury’s vision, values and desired capabilities.



Figure 1. TOM Components

Organizations are complex systems consisting of several interconnected components. As a result, a Target Operating Model design is a systematic design process which breaks this complex machinery down into its logical components and deploys the appropriate analysis and design techniques for each component to build a better model. KPMG’s objective for the TOM design is to optimize the overall business system in order to deliver a first step to help improve the business performance of IRA and CFIA.

KPMG has leveraged the information provided by the Department of Treasury, to analyze and assess the current operations of IRA and CFIA. KPMG focused the assessment of the Operating Model on the following:

- **Specific Services, Functions and processes:** Identify the services provided and the high-level functions and processes that support them;
- **Organization and Governance:** Outline the current organization and governance

³ © 2014 KPMG International Cooperative

⁴ Ostelwalder, Alexander and Yves Pigneur, Business Model Generation. Self Published. 2009

structure (including controls);

- **Technology:** Outline the current technology services, applications and infrastructure supporting the business;
- **Sourcing and Locations:** Describe the current locations where the Department conducts business and the third-party service agreements currently in place to help to deliver services;
- **Performance Management:** Discuss the current business performance metrics and measurement processes;
- **People and Skills:** Discuss the current staffing levels and skill sets

3.2 Business Model Canvas

Following the input from the Department Directors, KPMG documented the Current Business Model using a Business Model Canvas⁵ through nine building blocks (see Figure 2) that represent the core business model elements of any organization.

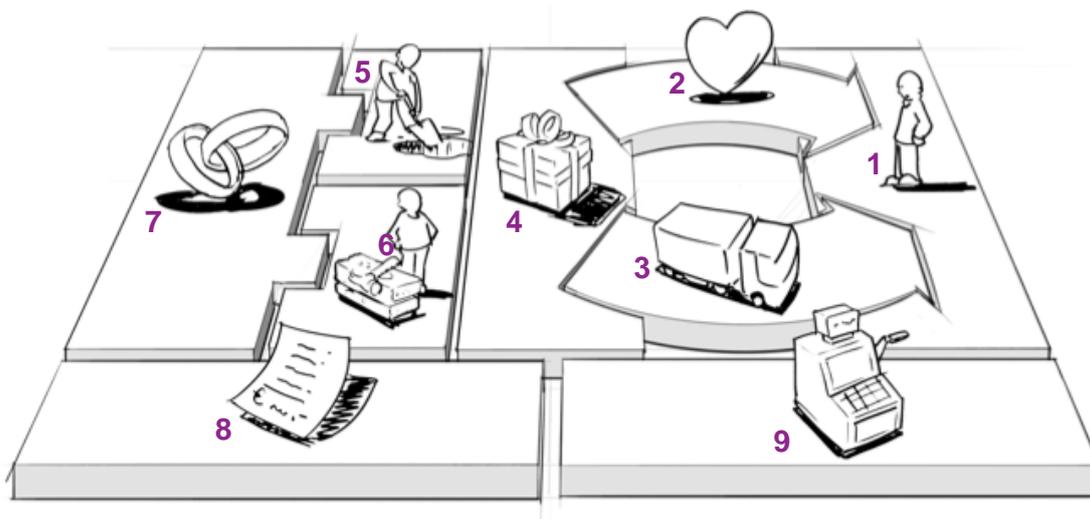


Figure 2. The Nine Building Blocks of the Business Model Canvas

The nine building blocks of the Business Model Canvas are:

1. **Customer Segments:** Individuals, businesses, institutions and associations the Department serves. KPMG grouped the customers into distinct segments based on their common needs
2. **Customer Relationships:** The types of relationships (e.g. transactional, long term) the Department has established with specific Customer Segments
3. **Channels:** The ways the Department communicates with and reaches its Customer Segments to deliver its services
4. **Value Proposition:** The services that create and maintain a value for each Customer Segment
5. **Key Activities:** Activities that directly impact the Value Proposition
6. **Key Resources:** The most important assets of the Department

⁵ Ostelwalder, Alexander and Yves Pigneur, Business Model Generation. Self Published. 2009

- 
7. **Key Partnerships:** Relationships with third parties that help the Department improve its operations, reduce risk, or acquire resources
 8. **Cost Structure:** Type of costs incurred and managed
 9. **Revenue Streams:** The income generated by the business on each Customer Segment

The nine building blocks for the Internal Revenue Area from the Department of Treasury are described in the next section (section 4).

4. Current Business Model

4.1 IRA and CFIA Business Model

Business Model Context

The IRA and CFIA business model can be described, at a high level, using the following diagram, which describes the context of the areas by identifying the clients, partners, agents, providers and governors that consist of the environment that the areas interact with.

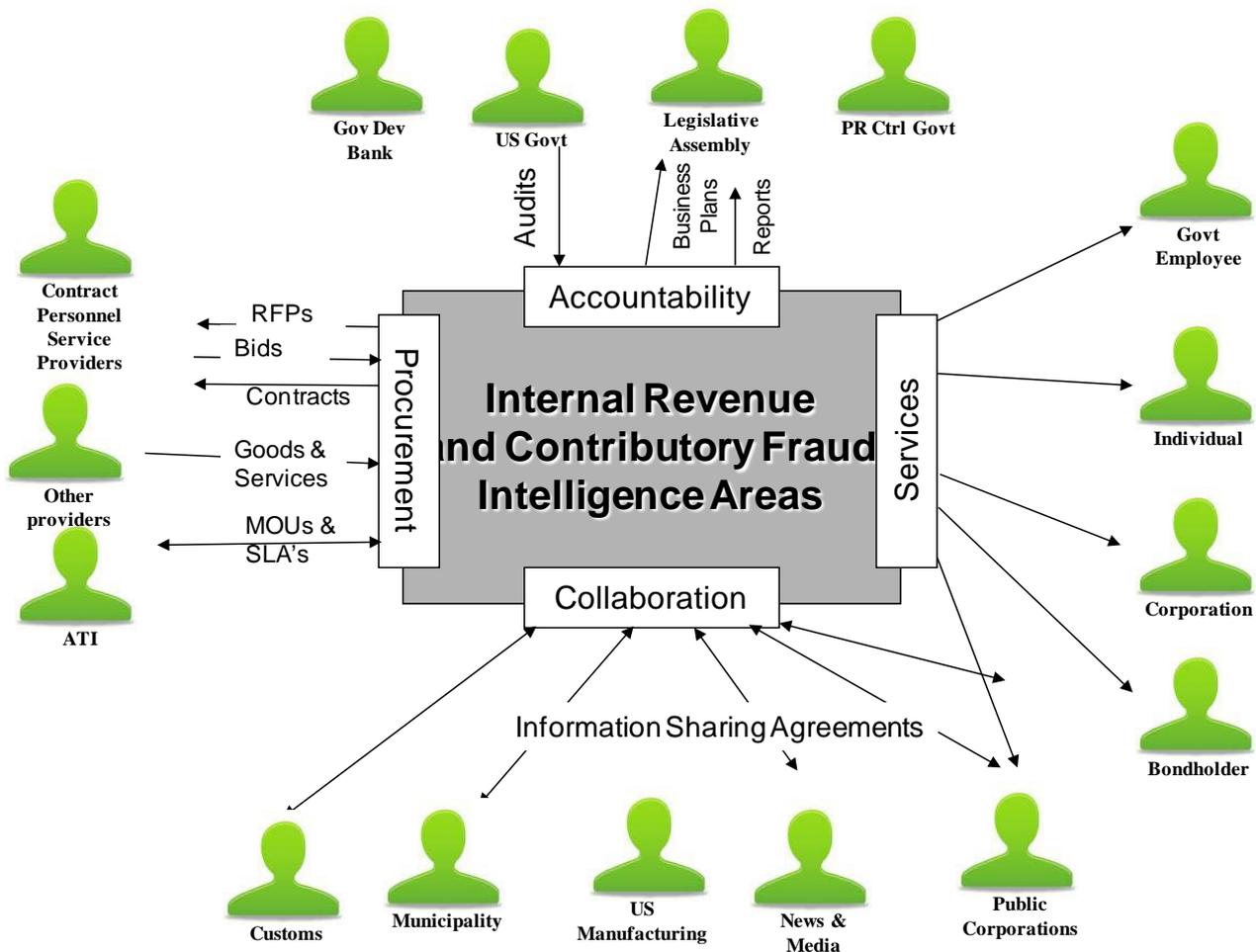


Figure 3 - Business Context diagram

Business Model Canvas

The next level of detail is provided by the Business Model Canvas. Supported by a general understanding of the business, KPMG met with the Executives of the Department to build the Business Model Canvas⁶ that illustrates the Current Business Model of IRA and CFIA:

⁶ Ostelwalder, Alexander and Yves Pigneur, *Business Model Generation*. Self Published. 2009

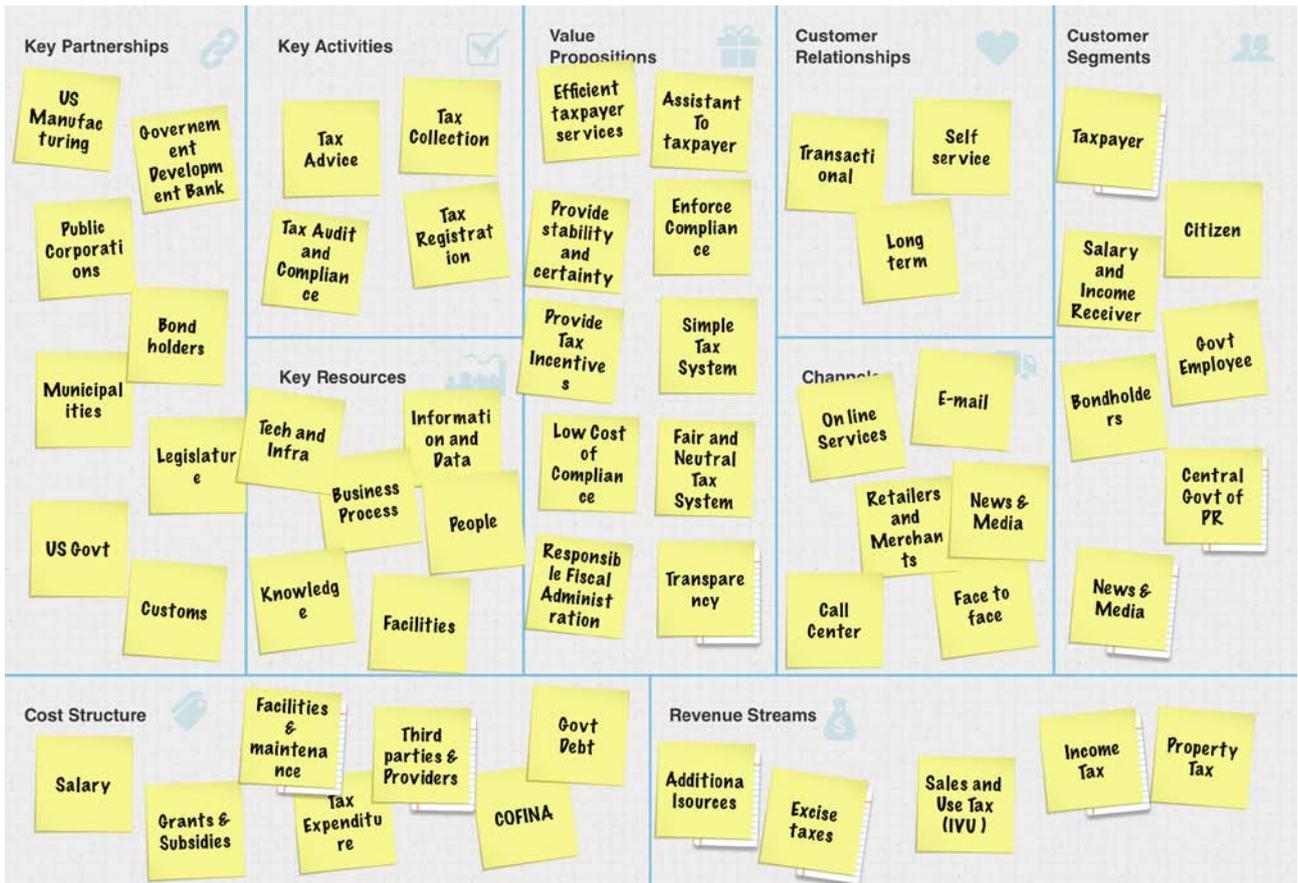


Figure 4. Business Model Canvas for the Current Business Model of the Internal Revenue Area

The content of the nine building blocks defined with the Department Executives are:

4.1.1 Key Partnerships

The Department has an important partnership with the **Government Development Bank of Puerto Rico**, as the main investment officer for the government and fiscal manager. There are also strong relationships with local and US groups of interest, such as the **US Manufacturing Companies**, the **US Government**, the **78 Municipalities** of Puerto Rico, and **Public Corporations** (such as the Puerto Rico Industrial Development Company - PRIDCO) as well as with **Bond Holders**, the **Legislative Assembly** and **Customs**.

4.1.2 Key Activities

The key activities were grouped in four (4) main processes:

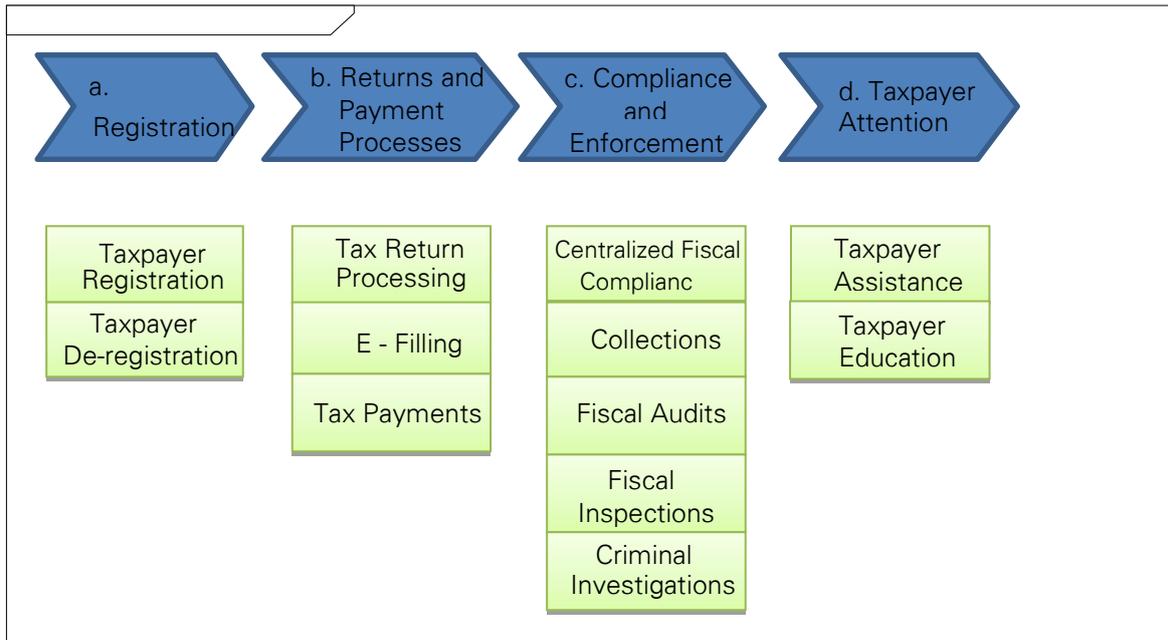


Figure 5 - Value Chain of IRA and CFIA

- Taxpayer Registration: This process consists of the creation of a taxpayer with all tax obligations and taxation objects. It also includes the removal of a taxpayer from the records of the Department in order to not obligate the taxpayer to declare a certain tax, based on certain present conditions (**Tax Registration**).
- Returns and Payment Processes: This process consists of returning amounts paid in excess by the taxpayers during a given tax year. It also includes the process of receiving the income from taxes according to the regulation and the electronic submission of information that is required by law or regulation (**Tax Registration**).
- Compliance and Enforcement: This process consists of assuring the adequate collection of taxes (**Tax Collection**), in accordance to the Tax Code dispositions while considering different collection methods in case of debt and tax evasion. This process includes the preparation and execution of the Contribution Collection Program, which is aimed at ensuring the collection of tax contributions converted into tax receivables in accordance with Internal Revenue Code. This process also includes the planning and conducting of audits and investigations on returns filed by taxpayers and monitoring the results of these initiatives.

Furthermore, this process includes the identification and investigation of potential taxpayers that are not in compliance with the fiscal and tax laws of Puerto Rico. Also, this process is focused on the selection of taxpayers and payrolls to investigate and obtain the information required to provide recommendations to the corresponding Bureau on how to proceed for the collection procedure. Taxpayers that fail to comply with filing and payment obligations are referred to the courts for potential criminal investigation. The evidence obtained on possible fraud or violations of fiscal laws are submitted to the Department of Justice (**Tax Audit and Compliance**).

- d. Taxpayer Assistance: This process consists of providing assistance (**Tax Advice**) to different requests of taxpayers, concerning to any tax service provided by the Internal Revenue Area. It includes the development and execution of programs to guide, regulate and train the community on topics related to taxes.

4.1.3 Value Propositions

KPMG has identified several value propositions at the Internal Revenue Area. They are: Provide **Efficient Taxpayer Services**, Provide **Assistance to Taxpayers**, Provide **Stability and Certainty** on Tax Transactions and Management (No Corruptions), **Enforce Compliance**, Provide **Tax Incentives**, Maintain a **Simple Tax System**, Promote **Low Cost of Compliance**, with a **Fair and Neutral Tax System**, and **Responsible Fiscal Administration with Transparency** (Guarantee Taxpayer's Rights).

4.1.4 Customer Relationships

Customer relationships may range from personal to automated mechanisms and from transactional to long-term interactions. At the Internal Revenue Area, KPMG identified three (3) kinds of relationships with Customer Segments: **Transactional** Relationship with Citizens, Income Receiver and Consumers; **Self Service** Relationship with Citizens, Income Receiver and Corporations; and **Long Term** Partnership with Corporations, Income Receivers and the Commonwealth of Puerto Rico.

4.1.5 Customer Segments

KPMG identified seven customer segments within the Internal Revenue Area:

1. **Citizens** (taxpayers and non taxpayers)
2. **Taxpayers** (individuals, corporations, partnerships or tax exempt organizations)
3. **Salary and Income Receivers**
4. **Government Employees**
5. **Bondholders** (including prospective investors and bond rating agencies)
6. **The Central Government of Puerto Rico**
7. **News and Other Media** (includes newspapers, radio, television, social networks, etc.)

4.1.6 Key Resources

Resources can be physical, financial, intellectual, or human. At the Internal Revenue Area, KPMG identified as key assets for its proper operation the following resources: **People, Technology & Infrastructure, Information & Data, Institutional Knowledge, Business Processes and Facilities**.

4.1.7 Channels

KPMG identified the following channels of contact with the Customer Segments: **On-Line Services, E-mails, Call Center, Face to Face Service Centers, Retailers and Merchants, and News & Media.**

4.1.8 Cost Structure

KPMG identified the following as the significant costs incurred: **Tax Expenditure, Facilities and Maintenance, Salary, Third Parties & Providers, Grants & Subsidies, COFINA** (The Puerto Rico Urgent Interest Fund Corporation, also known as the Puerto Rico Sales Tax Financing Corporation) **and Other Government Debts.**

4.1.9 Revenue Streams

Puerto Rico generates revenues through **Income Tax, Sales and Use Tax, Excise Taxes, Property Tax, and Additional Sources of Revenues.** Each tax is described below:

- **Income Tax:** Imposed on income by the federal, most state, and many local governments. The income tax is determined by applying a tax rate, which may increase as income increases, to taxable income as defined. Individuals and corporations are directly taxable, and estates and trusts may be taxable on undistributed income.
- **Sales and Use Tax:** This tax is better known as "IVU" (from the Spanish "Impuesto sobre Venta y Uso). Tax rates changed to 6% at the state level and 1% at the municipal level in 2007.
- **Excise Taxes:** Inland tax on the sale, or production for sale, of specific goods or a tax on a good produced for sale, or sold, within a country or licenses for specific activities.
- **Property Tax:** This is a levy on property that the owner is required to pay.
- **Additional Sources of Revenues:**
 - Payroll Tax: Taxes that employers and employees pay based on compensation.
 - Gift Tax: Tax on money or property that one living person gives to another. Items received upon the death of another are considered separately under the inheritance tax. Many gifts are not subject to taxation because of exemptions given in tax laws.
 - Estate Tax: Inheritance tax or estate tax is a levy paid by a person who inherits money or property or a tax on the estate (money and property) of a person who has died.

4.2 Business Strategy

When defining the current business and operating model of an organization, it is necessary to understand the direction that the Department seeks to achieve organizational goals. Below we have presented our understanding of the Department of Treasury strategy.

4.2.1 Mission

The Department of the Treasury's Mission statement is as follows:

*"Mejorar el bienestar de los puertorriqueños al administrar las leyes tributarias de manera justa y equitativa; proveer asesoría oportuna y correcta a los líderes de las ramas ejecutiva, legislativa y judicial sobre asuntos fiscales y económicos; establecer mecanismos efectivos y transparentes de captación de impuestos; administrar los dineros bajo nuestra custodia con corrección y buen juicio; y ofrecer una experiencia de servicio de excelencia a nuestros contribuyentes y público general."*⁷

("To improve the welfare of Puerto Ricans in the administration of the tax laws in a fair and equitable manner; to provide timely and accurate advice to the leadership of the Executive; Legislative and Judicial branches of Government on fiscal and economic matters; to establish effective and transparent mechanisms for tax collections; to manage the funds in our custody correctly and with sound judgment; and to offer excellent service experience to our taxpayers and to the general public.")

4.2.2 Vision

The Department of the Treasury's Vision statement is as follows:

*"El Departamento de Hacienda será una agencia líder que se distinguirá por la calidad y accesibilidad de los servicios brindados al ciudadano a través de sus oficinas, centros de llamadas y por el Internet; efectiva en la fiscalización de los recaudos y en la erradicación de la evasión contributiva; e innovadora en el uso de la tecnología innovadora en el uso de la tecnología."*⁸

("The Department of Finance will be a leading agency distinguished by the quality and accessibility of services provided to citizens through their offices, call centers and the Internet; effective in monitoring the revenues and eradicating tax evasion; and innovative use of technology to achieve greater operational efficiency.")

KPMG identified a series of challenges that the Department of the Treasury should overcome in order to achieve its Mission and Vision. Most of these challenges are documented and analyzed in the Results and Opportunities for Improvement section of this report.

During the design of the TOM, KPMG worked with Department of the Treasury's leadership to answer questions about the degree of accomplishment in meeting the Mission and Vision during and after the organization's transformation. Examples of possible questions to keep in mind during that process are shown in the following table.

⁷ <http://www.hacienda.gobierno.pr/conocenos/mision.html>

⁸ <http://www.hacienda.gobierno.pr/conocenos/mision.html>

Key ideas from the Department's Mission and Vision	Example Questions to Assess the Accomplishment of the Department Mission and Vision
"establish effective and transparent tax collection mechanisms"	<ul style="list-style-type: none"> ■ Are adequate procedures in place to ensure that the debt collection function is able to operate effectively including: property seizures, seized property sales, enforced debit from the bank account of the tax debtor, obligation for third parties having debts against a taxpayer to pay tax arrears on his behalf, etc. ■ Are management controls in place to protect and ensure the integrity of the revenue stream? ■ Is the Tax Collection process formally documented and standardized? ■ Is a system operational to ensure the harmonized and impartial application of law within the country?
"provide excellent service to our taxpayers and the general public"	<ul style="list-style-type: none"> ■ Does the tax administration facilitate access for taxpayers and their advisors to non-sensitive or non-restricted information held about them? ■ Are rights and obligations of tax officials and taxpayers, tax penalties and appeal procedures contained in guides available to businesses, advisors, tax officials and to the public? ■ Does the public have a positive opinion about the services provided?
"distinguished by the quality and accessibility of services provided to citizens"	<ul style="list-style-type: none"> ■ Are all necessary taxpayers' details kept in one consolidated file and controlled by a file-tracking system? ■ Are there CSFs and KPIs in place to measure the quality of the service provided? Are these KPI's performance monitored and actions taken based on its results? ■ Has the administration provided up-to date and accessible guidance available through a range of media (e.g. internet, advice centers and print materials)? ■ Are there safeguards in place to protect data, privacy and security?
"innovative in the use of technology"	<ul style="list-style-type: none"> ■ Is information (legislation and forms) easily available, are filing data (returns) easily managed, both externally and internally, and is access gained through a user-oriented interface with a high level of simplicity? ■ Does the tax administration have a published and regularly reviewed IT strategy? ■ Has the tax administration developed and optimized its working procedures with the extensive use of new technologies? ■ Is information (legislation and forms) easily available, are filing data (returns) easily managed, both externally and internally, and is access gained through a user-oriented interface with a high level of simplicity?

4.2.3 Business Drivers

During the analysis of the Department’s Mission and Vision and interviews with the key stakeholders KPMG identified business drivers to be considered in the design of the IRA and CFIA target operating model.

Business Drivers	Business Challenge	Potential Benefits
Simplification of Operations	<ul style="list-style-type: none"> ■ Unsustainable level of complexity caused by too many changes ■ Complex or informal governance of the service provided 	<ul style="list-style-type: none"> ■ Coordinated and simplified operating model without deteriorating business performance ■ Increased responsiveness ■ Standardized business processes
Enhanced Service	<ul style="list-style-type: none"> ■ Need to improve customer service while keeping costs under control ■ Improve the capabilities of the personnel ■ Cumbersome business processes 	<ul style="list-style-type: none"> ■ Step change in quality of customer service while keeping costs to serve flat ■ Flexible operations capable of absorbing variability in customer demands
Optimize Costs of Operations	<ul style="list-style-type: none"> ■ Need to reduce costs ■ Optimize operational costs 	<ul style="list-style-type: none"> ■ Important cost savings through process redesign ■ Sustainable cost reduction through structural change without affecting the capabilities of achieving the collection goals



5. Current Operating Model

This section analyzes the seven bureaus of the Internal Revenue Area and the Contribution Fraud and Intelligence Area:

- 5.1 Fiscal Audit Bureau
- 5.2 Taxpayer Services Bureau
- 5.3 Processing Bureau
- 5.4 Collections Bureau
- 5.5 Consumption Tax Bureau
- 5.6 Tax Assistance and Specialized Consults Bureau
- 5.7 Contribution Fraud and Intelligence Area

For each of the seven Bureaus listed above, the report summarizes the operating components, including:

- Specific Services, Functions and Processes
- Organization and Governance
- Technology
- Sourcing and Locations
- Performance Management
- People and Skills

Appendix B provides a summary of some of the details for each bureau in the Technology, Locations, Performance Management and People components.

5.1. Fiscal Audit Bureau

a. Specific Services, Functions and Processes

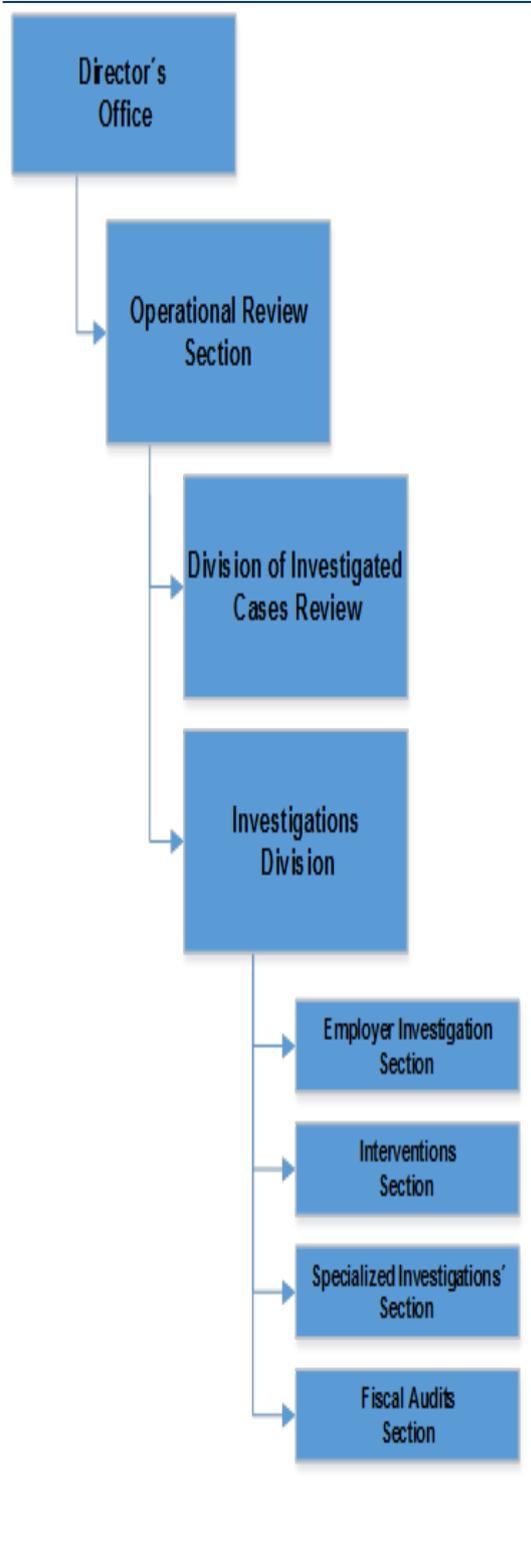
The Fiscal Audit Bureau was created in 1996 as part of a Department administrative reform initiative. It is responsible for conducting audits or investigations of payrolls submitted by individual and corporate taxpayers. The Consumption Tax Bureau conducts other audits of sales and use tax and alcoholic beverage taxes.

The main functions of the Fiscal Audit Bureau are:

- Maintain a program review of the audits or investigations to execute
- Select taxpayers and payroll to audit or investigate and collect the information required for each case
- Review audit or investigation work related to the compliance with Internal Revenue Code, different regulations, audit plan and procedures to be followed
- Review all reported cases and monitor the progress of the audits or investigations
- Assist and review the operations of the District Office and establish public policy
- Consolidate the statistical data that comes from the different districts for the generation of KPIs and maintain statistics of audits or investigations carried out at central and regional level
- Develop standards, guidelines and research methods to be followed in all audits or investigations following the established public policy
- Prepare technical material for cases appealed to the courts

b. Organization and Governance

The Fiscal Audit Bureau is subdivided in the following divisions:

Division	Brief Division Description
 <p>Director's Office</p>	<p>Consists of the Director of the Bureau and her assistants. This office is responsible for coordinating and supervising the operational and technical personnel.</p>
<p>Operational Review Section</p>	<p>Evaluates the cases to be selected for investigations or audits. receives information from the other sections of the Bureau and applies certain controls, if the case doesn't meet with the regular controls of the industry they perform an initial review. Selects audit cases for review in order to evaluate if Code provisions and internal procedures are being applied. It supervises the operational review of the Districts. This section is part of the Director's Office.</p>
<p>Division of Investigated Cases Review</p>	<p>Evaluates controls and assigns a cases for investigation to the appropriate sections beneath it. It also receives claims on behalf of the employers. This Division i decides when an investigation must continue or is finalized.</p>
<p>Investigations Division</p>	<p>Controls and monitors all tax audits performed by the District offices, Special Audits, Interventions and Employer Investigations. Also, monitors that the time dedicated to each audit is kept under the authorized timeframe. Reports complex cases to the Director's office.</p>
<p>Employer Investigation Section</p>	<p>Audits employers in order to verify that the payroll withholding rules are being applied according to the law. It also audits the withholding for professional services and receives complaints from both the employees and employer.</p>
<p>Interventions Section</p>	<p>Investigates companies who presented irregularities in order to determine if they had been working according to the established laws, regulations and rules dictated by the Department.</p>
<p>Specialized Investigations' Section</p>	<p>Responsible for audits on specialized and more complex industries such as insurance, banks, construction and multinational companies.</p>
<p>Fiscal Audits Section</p>	<p>Audits income and excise tax for all taxpayers with the exception of those audited by the Specialized Investigations Section. Evaluates and determines the tax rate for each taxpayer and also performs payroll investigations. It is divided into 7 district offices: San Juan Metro Area, Arecibo, Bayamon, Caguas, Humacao, Mayagüez and Ponce.</p>

c. Technology

Information Technology Administration (ATI) centrally supports this and the other bureaus from the Intendente Ramirez Tower, where all systems and historical databases are located.

Three main systems are used for the analysis and follow up of taxpayer's history, and to process related information:

- The ARBITRIOS system calculates taxes applicable to all articles imported to the Commonwealth including: goods, vehicles and food products. It was developed using the Adabas/Natural platform
- The PRITAS system allows for the collection, payments and reconciliation of corporate taxes, and was developed using the COBOL II/CICS/DB2 platform. It is primarily used for data entry and it serves as the accounting "engine" for corporate taxes
- The REFO system processes individual taxes and was developed using the COBOL II/COBOL-VS/CICS and VSAM platforms
- The P8 system allows viewing of IVU (Impuesto sobre Ventas y Uso – Sales and Use Tax) payroll documents. It was developed using the .NET Framework

Also, to complement their monitoring tasks, the Bureau uses SAF (Tax Audit System) to document audits and follow up status.

The current system environment lacks integration between the core systems and does not allow an integral view of taxpayer information.

ATI also contracts support of legacy applications from six individuals who previously worked at the Department.

d. Sourcing and Locations

Sourcing:

The Fiscal Audit Bureau uses temporary administrative personnel from Kelly Services and Caribbean Temporary Services.

Location:

The Fiscal Audit Bureau is located at Intendente Ramírez Tower, with the exception of the Fiscal Audit Districts, which are located in the following 7 different districts: San Juan Metro Area, Arecibo, Bayamon, Caguas, Humacao, Mayagüez and Ponce.

e. Performance Management

The Bureau uses a Microsoft Excel template to monitor the performance of audit development. All 7 districts use this template and send it to the Department for consolidation. The consolidated template captures the following information:

- Indicators used to keep control on cases worked:
 - Quantity of open cases
 - Quantity of cases closed
- Indicators used to keep control on penalties applied:
 - Priced Deficiencies
 - Impairments charged

The Bureau is not presenting performance reports to any specific office. A collection goal has not been established for this new Government period, instead the goal established for the previous Government period is still being used as the baseline.

The Bureau lacks a system for timely decision making information generation. The Bureau is working with ATI to develop an application that will deliver timely status information from district cases and identify the amount collected from each case.

f. **People and Skills**

The Fiscal Audit Bureau currently has a total staff of 237 employees: 191 Auditors, 25 administrative personnel and 21 clerical personnel. Their 7 district offices have the following number of employees:

- San Juan Metro Area: 43
- Arecibo: 20
- Bayamon: 17
- Caguas: 19
- Humacao: 22
- Mayagüez: 24
- Ponce: 22

There percent of Fiscal Audit Bureau staff are temporary employees, who hold mainly entry level administrative positions.

Generally, the Fiscal Audit Bureau and the Internal Revenue Area have experienced higher turnover as a result of more attractive salary offerings in the local market and private sector organizations.

The recent loss of 81 Fiscal Audit Bureau employees can be mostly attributed to Law 70 regarding retirement. As a result, more than 30% of the total staff is relatively new and are within their probation period. Approximately 44% of their Audit staff is classified under the lowest position, Tax Auditor I. Of the 7 District Offices, six (Arecibo, Bayamon, Caguas, Humacao, Mayagüez and Ponce) have interim Supervisors, under the Tax Specialist IV classification

Additionally, there is no formal training process in place, therefore Auditors are not up to date on ruling changes.

5.2. Taxpayer Services

a. Specific Services, Functions and Processes

The Taxpayer Services Bureau was created in 2004 with the purpose of providing effective, prompt and quality services to resolve taxpayer complaints in one location .

The Taxpayer Services Bureau is responsible for assisting taxpayers and representatives who visit the Service Centers with requests related to: claims refunds, mathematical errors, refunds credited to debts, non-resident withholding tax, claims of employer contributions and any tax matter related to the forms from individuals, corporations, Excise Tax and Sales and Use Tax (SUT). It also receives, evaluates, resolves and answers correspondence regarding Contributory claims and general inquiries.

Other services offered by the Taxpayer Services Bureau are:

- Processing of requests for single copies or certified payroll
- Processing of Waiver Certificate of full or partial withholding at source on payments for services rendered (7%)
- Analyze and address the different requests of taxpayers
- Process transactions from taxpayers or representatives and try to resolve them immediately
- Address notifications issued once the tax filing is processed
- Receive and refer cases to different Bureaus for resolution, such as “reparos” which are sent to the Processing Bureau
- Notify the taxpayer of the results or the status of their applications

The Taxpayer Service Bureau’s services are provided in person, telephone, electronically, fax, or through correspondence to taxpayers and to representatives of taxpayers (tax practitioner).

The Taxpayer Services Bureau has two divisions:

1. Call Centers and Correspondence
2. Service Centers

1. Call Centers and Correspondence:

Within this division there are:

- General Guidance
- Analysis of Accounts
- Immediate Response
- Tax Orientation

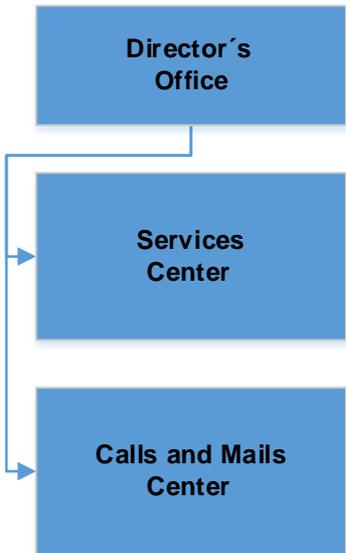
2. Service Centers:

Service Centers are located in different districts and are responsible for assisting taxpayers with different types of claims and to perform different types of transactions. The Bureau has eight (8) service centers located in: San Juan (Building Ramirez and Mercantil Plaza Mayor), Arecibo, Bayamon, Mayagüez, Aguadilla, Ponce and Caguas. The department follows manual

processes. However, in April 2014 the Taxpayer Services Bureau completed the first phase of a project promoted by the office of the Secretary related to the improvement in the taxpayer services. Procedure manuals were updated but have not yet been formally approved.

b. Organization and Governance

The Taxpayer Services Bureau is subdivided in the following Divisions:

	Brief Description
 <p>Director's Office</p>	Manages, coordinates, plans and supervise the duties and administrative functions that are performed with the divisions and offices of the Bureau. Develops procedures, guidelines and rules related to the Action Plan. Also, evaluates processes in order to assure that the required quality and service is sustained.
<p>Services Center</p>	Provides alternatives to taxpayers (individuals, corporations, merchants and representatives) to attend and solve their issues through the phone, e-mail, mail and fax. They help the Service Center by avoiding the taxpayer to physically visit the offices for their claims. They analyze payrolls, provide information regarding calculation errors, explain adjustments to the taxpayers and prepare the case files.
<p>Calls and Mails Center</p>	Responsible to attend and assist the taxpayer (individuals, corporations, merchants and representatives) physically along the 8 centers located throughout the island. They receive the required documents related to payrolls, debt prescription, account changes, check claims, among others and also provide orientation to the taxpayers.

c. Technology:

The Taxpayer Services Bureau relies on the following applications:

- The REFO system processes individual taxes and was developed using the COBOL II/COBOL-VS/CICS and VSAM platforms.
- The PRITAS system allows for the collection, payments and reconciliation of corporate taxes, and was developed using the COBOL II/CICS/DB2 platform. It is primarily used for data entry and it serves as the accounting "engine" for all taxes, thus supposedly creating an integrated taxpayer current account.
- The QMATIC system is responsible for on-site customer service management and was developed using the .NET Framework platform.

IT support is provided centrally from the Intendente Ramirez Tower by ATI.

d. Sourcing and Locations

Sourcing:

The Taxpayer Services Bureau uses temporary administrative personnel from Kelly Services and Caribbean Temporary Services.

Locations:

The Taxpayer Services Bureau works from the Central Office in San Juan, but has 8 different centers which are: San Juan Intendente, San Juan Mercantil Plaza, Bayamon, Caguas, Arecibo, Aguadilla, Mayagüez and Ponce.

e. Performance Management:

In order to succeed, each Bureau needs to set strategic directions, establishes goals, execute decisions and monitor their state and behavior as they move towards their goal. However, according to the information provided there are no KPI's within the Bureau. There are some statistics about cases reviewed by workers (technicians) and they have not established key performance indicators (KPI's).

There are some statistical reports that summarize the number of cases handled weekly, monthly and yearly. Another report provides the waiting time for the taxpayers and the time it takes the employee to resolve the case, however, this information is used only in the annual report. There is no process in place to compare and analyze the statistics.

f. People and Skills

The following observations were identified.

- The Taxpayer Services Bureau currently has 242 employees, according to the Director of the Bureau; approximately 58% are contract or temporary employees
- Approximately 75% of their Tax Staff are at an entry level position, Tax Technician I
- There are many Tax Technicians working on an interim basis in Data Entry. There is significant shortage of Data Entry Operators, only 4 of them working for the San Juan Intendente and San Juan Mercantil Plaza Centers, the other 6 centers do not have a permanent Data Entry Operator
- The Taxpayer Services Bureau does not have an employee development process. When an employee works as interim on a different position (higher or lower) there is no formal training provided
- The Taxpayer Services Bureau does not have a formal training process for new hires. New hires or temporary staff have one day to learn the basics of PRITAS and REFO, then they work side by side with another colleague until they can perform their duties on their own

5.3. Processing Bureau

a. Specific Services, Functions and Processes

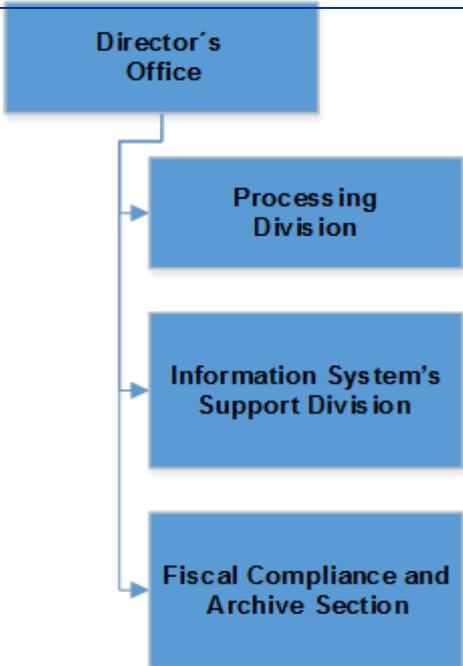
The Processing Bureau manages individual and corporation income tax processes, amended payroll tax, statements of income tax deductions, excise payroll, consumption tax payroll and payroll contributions on income withheld at source.

The primary functions of the Processing Bureau are:

- Receive tax return forms
- Classify, sort and number the tax return forms
- Review the information contained in the tax return form, along with the supporting documentation submitted by the taxpayer
- Enter tax return information into the electronic system and correct information, if required
- Maintain and control files of tax returns and related documents
- Provide photocopies of tax returns and documents requested by taxpayers

b. Organization and Governance

The Processing Bureau is subdivided in the following Divisions:

Division	Brief Description
 <p>Director's Office</p>	<p>Manages, coordinates, plans and supervises all administrative and technical activities. Analyzes law projects related with the activities of the Bureau and provides recommendations. Approves procedures and guidelines of the different divisions.</p>
<p>Processing Division</p>	<p>Receives all tax return forms from the mail office. They organize the documents, check if there's no document missing and classify payrolls. Also, they enumerate the payrolls and keep registry of them. Processes all statistics and financial data into the system (REFO).</p>
<p>Information System's Support Division</p>	<p>Checks for mistakes and calculation errors, solves the calculated errors and enters the corresponding corrections on the system. Assigns the tax return forms, depending on the issue, to the Fiscal Compliance and Archive Section.</p>
<p>Fiscal Compliance and Archive Section</p>	<p>Archives the tax return forms that are totally completed, notifies the taxpayer if there are errors or missing information on the tax return forms, and processes claims, refunds and debts for individual and corporate tax return forms.</p>

c. Technology

The information is registered in the following systems:

- PRITAS is the system responsible for the collection, payments and reconciliation of corporate taxes, and was developed using the COBOL II/CICS/DB2 platform. Primarily used as the data entry system, PRITAS also serves as the accounting “engine” for the taxes. However there are several potential mistakes that could occur when the data is entered by users when not automatically validated
- REFO is the system responsible for processing individual taxes and was developed using the COBOL II/COBOL-VS/CICS and VSAM platforms

IT support is provided centrally from the Intendente Ramirez Tower by ATI (Information Technology Administration).

d. Sourcing and Locations

Sourcing:

The Processing Bureau uses temporary administrative personnel from Kelly Services and Caribbean Temporary Services.

Location:

The Processing Bureau is located within the main office of the Department in the Intendente Ramirez Building.

e. Performance Management:

The Processing Bureau lacks performance indicators to measure regularly the results of the management and effectiveness of the areas.

Currently, the mechanisms for measuring the performance, either for the resources and processes, are insufficient and the statistics that are currently produced in different areas of the Bureau are not consistent.

f. People and Skills:

The following observations were identified.

- The Processing Bureau currently has more than 400 employees; more than 50% of them are temporary/outsourced personnel
- In April they hired over a 100 new temporary employees, due to the rush period.
- The Bureau lost approximately 40 experienced personnel in 2013
- The permanent staff, who are hired directly by the Department, are experienced.
- The Division of Tax Practitioners’ Regulations and Education, provides a basic training on internal revenue topics
- One on one training is done by an experienced employee, mainly focusing on tax return subjects and basic use of the system

5.4. Collections Bureau

a. Specific Services, Functions and Processes

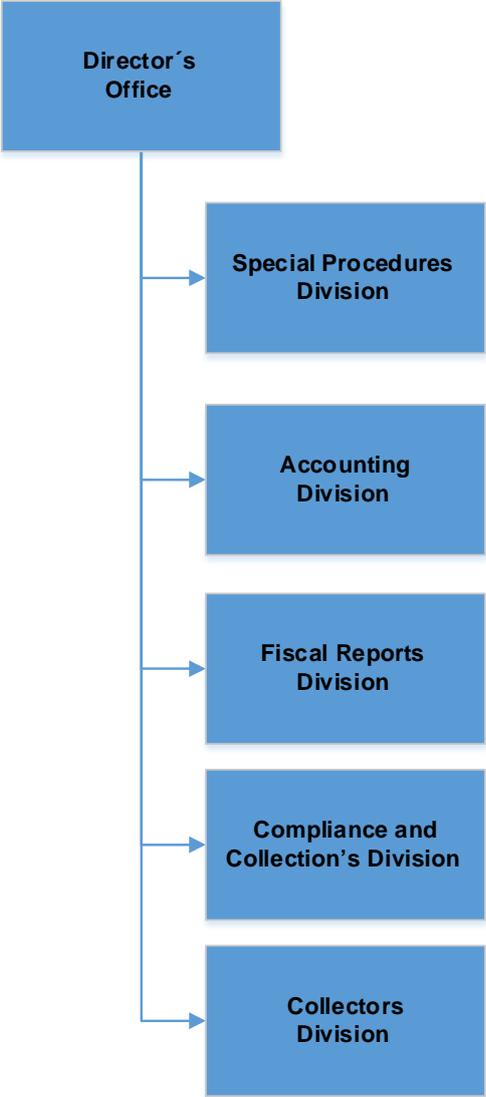
The Collections Bureau is focused on the collection of taxes, in accordance to Puerto Rico's fiscal code dispositions, considering different collection methods in the event of debts and tax evasion. In addition, the Bureau controls the accounts that reflect the movement of operations, collections and the outstanding balance of accounts receivables.

The main functions of the Collections Bureau are:

- Prepare, manage and evaluate the "Tax Collection Program" aimed at ensuring adequate collections
- Manage IRS Collection offices and perform additional functions related to collections
- Assist other Internal Revenue Bureaus on high complexity cases
- Provide guidance to taxpayers on the options to pay a debt
- Deliver foreclosure notices to taxpayers
- Process receivables related to bankruptcy cases
- Analyze and process claims of tax debts related to bankruptcy cases
- Execute collection efforts determined by the Bureau's Directors
- Process motor vehicle transfers taxes
- Distribute the amounts collected to the corresponding government entities in charge of executing their budget items

b. Organization and Governance

The Collections Bureau is subdivided in the following Divisions:

Division	Brief Description
 <p>Director's Office</p>	<p>Manages, coordinates, plans and supervises all operations of the different offices of the Bureau. Also, the Virtual Collection division and the Sales and Use Tax Collection division report directly to the Directors office. This office consists of 7 employees.</p>
<p>Special Procedures Division</p>	<p>Attends the requests for debt prescription. It is divided into 3 sections: the Chief's Office, the Real Estate Auction Section (that is currently not operating) and the Bankruptcy Section (responsible of presenting the taxpayers under the Law of Bankruptcy claims to the Federal Court). There are 25 employees on this Division.</p>
<p>Accounting Division</p>	<p>Accounts the income provided by the collections agencies, identifies the payments required from the collected entities, manages refunds, exemption payments and the Special Tire and Oil Recycling Fund. This office currently has 39 employees.</p>
<p>Fiscal Reports Division</p>	<p>Manages the recommendations established on the fiscal reports provided by Comptroller's Office, Internal Audit Office, Administrative Investigations Office and other fiscal agencies. Also, manages reports of shortages or losses from Collections. This office was closed, but it was recently reopened a few months ago, it currently has 1 employee.</p>
<p>Compliance and Collection's Division</p>	<p>Manages the 10 Collections districts which are: Arecibo, Bayamon, Caguas, Carolina, Guaynabo, Humacao, Mayagüez , Ponce, Rio Piedras and San Juan. It also manages the Call Center, which provides telephonic or mail support to the Districts; and the Analysis and Salary Discount Section, which is in charge of the discounts to the public employees. It currently has 179 employees distributed within the 10 districts and the main office.</p>
<p>Collectors Division</p>	<p>Manages the 89 Collection agencies from Internal Revenue under 7 administration offices located in Arecibo, Bayamon, Caguas, Humacao, Mayagüez , Ponce and San Juan. The collection agencies receive payments from tax debtors, internal revenue stamps and voucher's sales and tags sales. Also, makes payments of traditional lottery and electronic lottery. Made up by a total of 578 employees distributed within the 7 offices.</p>

c. Technology

Transactions are recorded using the following systems:

- RECOM is the dynamic interface responsible for conciliation of accounts related to the taxes collected, and was developed using the COBOL II/COBOL-VS/CICS and VSAM platforms
- PRIFAS (Puerto Rico Integrated Financial Administration System) is the system responsible for allocate all accounting transactions of Puerto Rico's Government. It was developed using the PeopleSoft/DB2 platform
- ARBITRIOS is the system responsible for the calculation of taxes. It was developed

using the Adabas/Natural platform

- PRITAS is the system responsible for the collection, payments and reconciliation of corporate taxes, and was developed using the COBOL II/CICS/DB2 platform. Primarily used for data entry and it essentially serves as the accounting “engine” for all taxes, thus supposedly creating an integrated taxpayer account
- REFO is the system responsible for processing individual taxes and was developed using the COBOL II/COBOL-VS/CICS and VSAM platforms

IT support is provided centrally from the Intendente Ramirez Tower by ATI (Information Technology Administration).

d. Sourcing and Locations

Sourcing:

The Collections Bureau uses temporary administrative personnel from Kelly Services and Caribbean Temporary Services.

Locations:

The Collections Bureau has three offices in San Juan: The Director’s Office, Special Procedures Division, Accounting Division and Fiscal report Division. The Compliance and Collection Division has 10 district offices located in: Arecibo, Bayamon, Caguas, Carolina, Guaynabo, Humacao, Mayagüez, Ponce, Rio Piedras and San Juan.

The Compliance and Collection Division has 7 Administration Offices that divide into 89 Collecting Agencies, divided in the following manner:

- Arecibo Administration (14): Arecibo Centro, Arecibo CESCO, Barceloneta, Camuy, Ciales, Florida, Hatillo, Lares, Manati, Morovis, Quebradillas, Vega Alta, Vega Baja and Utuado
- Bayamon Administration (10): Bayamon, Bayamon CESCO, Barranquitas, Comerio, Corozal, Dorado, Orocovis, Naranjito, Toa Alta and Toa Baja
- Caguas Administration (12): Aguas Buenas, Aibonito, Arroyo, Caguas, Caguas CESCO, Cayey, Cidra, Guayama, Gurabo, Juncos, Paitillas y San Lorenzo
- Humacao Administration (13): Canovanas, Ceiba, Culebra, Fajardo, Humacao, Las Piedras, Loiza, Luquillo, Maunabo, Naguabo, Rio Grande, Vieques and Yabucoa.
- Mayagüez Administration (16): Aguada, Aguadilla, Aguadilla CESCO, Añasco, Cabo Rojo, Hormigueros, Isabela, Lajas, Las Marias, Maricao, Mayagüez , Mayagüez CESCO, Moca, Sabana Grande, San Germán and San Sebastian
- Ponce Administration (14): Adjuntas, Coamo, Guanica, Guayanilla, Jayuya, Juana Diaz, Peñuelas, Ponce, Ponce CESCO, Ponce Centro Judicial, Salinas, Santa Isabel, Villalba and Yauco
- San Juan Administration (10): Carolina CESCO, Carolina Centro de Gobierno, Carolina Centro Judicial, Guaynabo, San Juan Central, San Juan Registro, San Juan Centro Gubernamental, San Juan Capital Center, Santurce and Trujillo Alto

e. Performance Management

The Collections Bureau generates MS Excel reports on a monthly basis, which are:

- Payment plans monthly report

- 
- Collections monthly report
 - Foreclosure reports

f. **People and Skills**

The following observations were identified.

- The Collections Bureau has a total of 847 employees, of which 32% are outsourced/temporary employees
- The Collections Bureau had 120 employees retire in 2013. The Collections Bureau attributes these retirements related to Law 70. Only 20% of the vacancies were filled with permanent employees and the remaining were filled with temporary workers. Knowledge transfer from retired, experienced personnel did not occur to the new Department employees
- Currently, 49 out of the 89 Collectorates do not have a Collector/Supervisor. For these agencies, they currently have Technicians/Assistants working as interim Supervisors
- There is no formal training process for new hires and no development plan for senior personnel
- More than 70% of their Collections personnel are Assistants

5.5. Consumption Tax Bureau

a. Specific Services, Functions and Processes

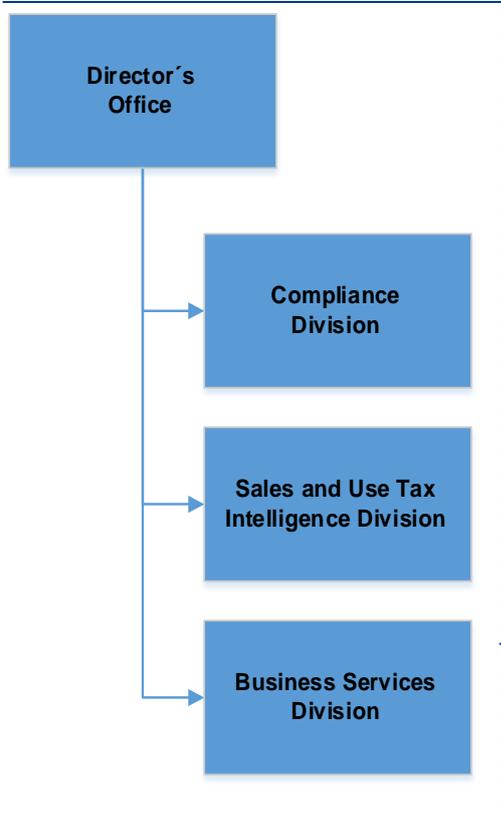
The Consumption Tax Bureau is focused on developing, managing and accomplishing the necessary activities regarding the assessment of Excise Taxes and Sales and Use Tax. It also manages the Registry of Public Entertainment Promoters and assures the proper compliance with tax rules related to public events (refund bonds).

The main services offered by the Consumption Tax Bureau are the following:

- Monitor excise on imports to the jurisdiction of the Commonwealth of Puerto Rico
- Maintain control (analysis, taxation, investigations) of the liquor industry and distiller trades
- Grant internal revenue licenses and other licenses required by special laws
- Maintain and administer the Registry of Public Entertainment
- Endorse tickets for public events and control the deposit to corresponding of any return of admission fees in case of cancellation
- Manage the IVU Loto program
- Evaluate requests for granting exemptions provided in subtitles C, D and E of the Fiscal Code
- Assess process and monitor compliance related to Excise taxes, Sales Tax and Alcoholic Beverages Tax
- Assess fines and debts and determines its recovery periods referring to the Internal Revenue Area

b. Organization and Governance

The Consumption Tax Bureau is subdivided in the following Divisions:

Division	Brief Description
 <p>Director's Office</p>	<p>Responsible of managing, coordinating, planning and supervising all of the Bureau's administrative and technical activities. Develops goals and objectives, approves procedures and guidelines and monitors all activities. There are 23 employees working on this office.</p>
<p>Compliance Division</p>	<p>Monitors sales and use taxes around the island, they intervene and control internal revenue licenses. Monitors and inspect commercial establishments in order to determine if they are enrolled in the Merchant Registry and have the proper fiscal device. Investigate if the merchants are fulfilling their duties, if they possess the required licenses for alcoholic beverages and other special products, detect infractions and apply sanctions. Currently there are 574 employees on this Division, divided into 8 districts.</p>
<p>Sales and Use Tax Intelligence Division</p>	<p>Manages all activities related to the Sales and Use tax (IVU). It currently has 29 total employees under 1 office divided into 3 sections:</p> <ul style="list-style-type: none"> - Technology Section: Provides IT support to the Bureau's applications. - Processing Section: Payroll processing regarding IVU, this section is not operating at the moment. - Audit Section: Provides the fiscal printers for IVU Loto and monitor their use.
<p>Business Services Division</p>	<p>Provides service to the business, attend their claims, provides information and assists them in any concern they can present. It currently has 4 employees working from the main office.</p>

c. Technology

The Consumption Tax Bureau uses the following systems:

- ARBITRIOS is the system responsible for the calculation of taxes applicable to special products. It was developed using the Adabas/Natural platform
- PRITAS is the system responsible for the collection, payments and reconciliation of corporate taxes, and was developed using the COBOL II/CICS/DB2 platform. Primarily used as the data entry system and it essentially serves as the accounting "engine" for all taxes, thus supposedly creating an integrated taxpayer current account

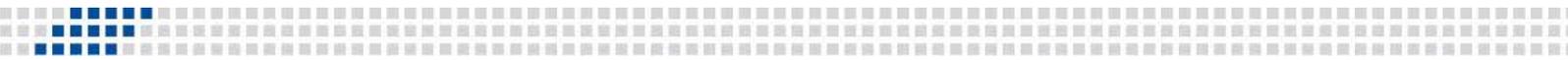
The Consumption Tax Bureau is working together with ATI to implement the use of tablets in which agents can upload information to the PRITAS system from the field.

IT support is provided centrally from the Intendente Ramirez Tower by ATI.

d. Sourcing and Locations

Sourcing:

The Consumption Tax Bureau uses temporary administrative personnel from Kelly Services and Caribbean Temporary Services.



Locations:

The personnel work in the main office and the 8 district offices as follows:

- Aguadilla
- Arecibo
- Bayamon
- Caguas
- Humacao
- Mayagüez
- Ponce
- San Juan-Carolina (Mercantil Plaza)

e. Performance Management

The Consumption Tax Bureau has a system that allows them to consult some task assigned. Additionally, they are about to implement a new measurement control on the tablets that are being used on inspections, that will allow them to monitor the current location of their inspectors.

f. People and Skills

The following observations were identified.

- They currently have 403 employees in total, with 270 of them working on the 8 districts mentioned before. Only 5 employees are temporary and they occupy administrative positions
- The Consumption Tax Bureau had 63 employees retire in 2013. The Consumption Tax Bureau attributes these retirements related to Law 70. The Bureau Director indicated that more than 60% of their current personnel are experienced
- There are more than 230,000 companies in Puerto Rico and the Consumption Tax Bureau has 344 Internal Revenue Agents to monitor them
- There is no formal training process training in place. Training consists primarily of on the job training. Recently, the Training and Development Division began training the Supervisors, this started early in April

5.6. Tax Assistance and Specialized Consults Bureau

a. Specific Services, Functions and Processes

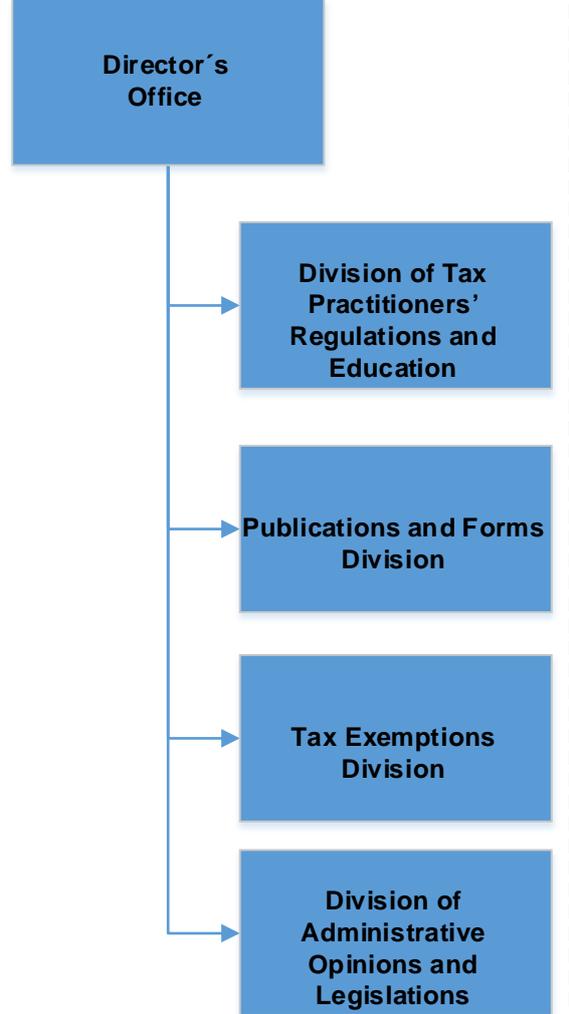
The Tax Assistance and Specialized Consults Bureau provides assistance, recommendations, guidance and training related to taxes, to taxpayers and tax matters professionals. It also supports the Internal Revenue Area on maintaining, producing and distributing all forms and publications.

The main functions and processes of the Tax Assistance and Specialized Consults Bureau are:

- Receive, analyze and provide recommendations about Fiscal Code interpretation to taxpayers, government offices and other entities
- Prepare, manage and evaluate the assistance program, in order to offer response to taxpayers
- Evaluate and provide recommendations about exemption requests based on the Tax Code
- Develop programs to guide, regulate and train professionals and the community on topics related to taxes
- Develop, design, produce, distribute, identify and revise periodically all Internal Revenue Area's forms and publications, based on the amendments made to the Tax Code

b. Organization and Governance

The Tax Assistance and Specialized Consults Bureau is subdivided in the following Divisions*:

Division	Brief Description
 <p>Director's Office</p>	<p>Manages, coordinates, plans and supervise the duties and administrative functions that are performed with the divisions. Ensures that all consults from the different taxpayers are answered. Provides detailed information on concerns regarding the Tax Code.</p>
<p>Division of Tax Practitioners' Regulations and Education</p>	<p>Responsible for developing and implementing training programs for tax practitioners within the companies and provide orientation to the community on Tax related topics. Keeps registry of the Payroll specialists and ensures they fulfill the defined requirements to perform as specialist.</p>
<p>Publications and Forms Division</p>	<p>Responsible for developing, design, identify and review the forms and publications made by the Internal Revenue Area. Also, review all changes made to the Tax Code and rules in order to develop new forms and publications. Manages the printing, production, reproduction and distribution of forms and publications.</p>
<p>Tax Exemptions Division</p>	<p>Recommends the different aspects that need to be taken into consideration to create tax exemptions under the disposition of the Puerto Rico Industrials Incentive Laws, the Tax exemptions and Hospitals Law, the Puerto Rico Touristic Incentives Laws and the 1101.01 Section of the 2011 Code. Also, gathers data and conducts studies to measure the impact of these exemptions.</p>
<p>Division of Administrative Opinions and Legislations</p>	<p>Responsible of analyzing, answering and presenting recommendations of concerns made by the taxpayers, government agencies and other entities regarding the tax Code. It is divided into 5 sections:</p> <ul style="list-style-type: none"> • Administrative Decisions Section. • Special Societies and Individual Corporations Section. • Pension Plans Section. • Inheritance and Donations Sections. • General Consults Section.

*The Tax Assistance and Specialized Consults Bureau is expected to be re-organized. In the event of restructuring, its functions are expected to be transferred from the IRA to a new Contributive Policy area. A potential future state organization design provided by the Department is presented below:

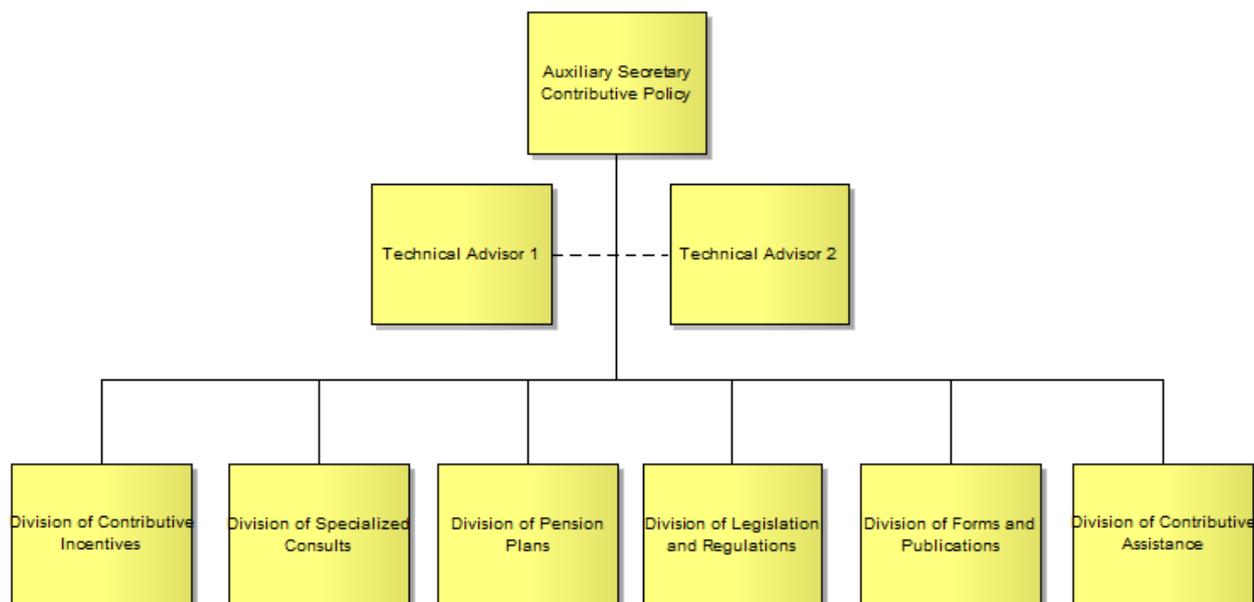


Figure 6 - Future organizational structure of the Contributive Policy Area

c. Technology

The Tax Assistance and Specialized Consults Bureau uses the following systems:

- REFO is the system responsible for processing individual taxes and was developed using the COBOL II/COBOL-VS/CICS and VSAM platforms
- PRITAS is the system responsible for the collection, payments and reconciliation of corporate taxes, and was developed using the COBOL II/CICS/DB2 platform. Primarily used as the data entry and it essentially serves as the accounting “engine” for all taxes, thus supposedly creating an integrated taxpayer current account
- QMATIC is the system responsible for customer flow management and was developed using the .Net Framework platform

d. Sourcing and Locations

Sourcing:

The Tax Assistance and Specialized Consults Bureau uses temporary administrative personnel from Kelly Services and Caribbean Temporary Services.

Locations:

The Tax Assistance and Specialized Consults Bureau works from the Central Office in San Juan.

e. Performance Management

The Tax Assistance and Specialized Consults Bureau uses Q-matic, which helps them maintain control over their personnel and workloads. This tool allows management to generate and obtain reports of the volume of cases.



f. People and Skills

The following observations were identified:

- The Tax Assistance and Specialized Consults Bureau currently has 62 employees; they have few outsourcing personnel, but some personnel are temporary workers contracted directly by the Department, generating a high turnover ratio
- The Tax Assistance and Specialized Consults Bureau lost 14 employees 2013. The Tax Assistance and Specialized Consults Bureau attributes these retirements related to Law 70
- The Tax Assistance and Specialized Consults Bureau indicated that the contracted personnel are experienced. The temporary staff are relatively new and do not have the experience or training necessary to perform at a high level

5.7. Contribution Fraud and Intelligence Area

a. Specific Services, Functions and Processes

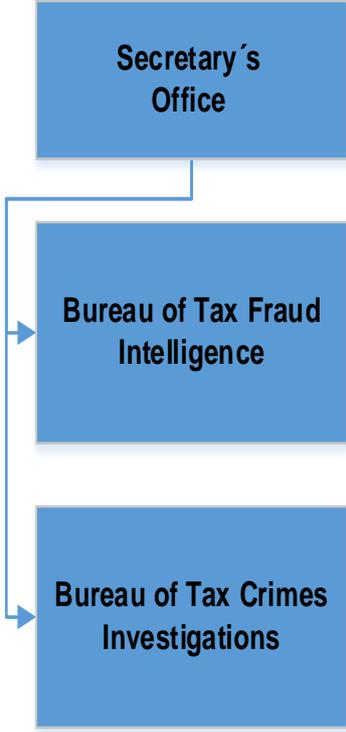
The CFIA is focused on supporting Internal Revenue Bureaus of Consumption Tax, Processing, and Fiscal Audits with cases involving tax evasion and fraud. The CFIA also executes field missions, in order to detect tax payment anomalies.

The main functions of the CFIA are:

- Select taxpayers and payrolls to investigate, using different tax evasion detection methods
- Collect the information required for each case and communicate the results to other Bureaus, such as Customer Tax, Fiscal Audits and/or Processing, in order to continue with a possible penalty taxation process
- Assist and review the investigations conducted by District Offices.
- Prepare technical material to be present to courts
- Specialized support via a “Task Force” Office to some federal agencies

b. Organization and Governance

The CFIA is subdivided in the following Divisions:

Division	Brief Description
 <p style="text-align: center;">Secretary's Office</p>	<p>Manages, coordinates, plans and supervise the duties and administrative functions that are performed with the bureaus and offices within the Area. It also analyses the implementations of new procedures and policies, supervises the compliances of this procedures and policies and provides training to the personnel. Currently have 3 employees.</p> <ul style="list-style-type: none"> • Task Force Office: report directly to the Secretary, they are responsible of working with different agencies of the government in tax related crimes. Currently have 30 employees.
<p style="text-align: center;">Bureau of Tax Fraud Intelligence</p>	<p>Gather and analyze possible cases of tax fraud crimes using the different systems and data bases to create reports of finding and references. Provide references to: the Fiscal Audit Bureau, for administrative investigations; and to the Bureau of Tax Crimes Investigation, for criminal cases. This Bureau is currently not operating, since the Secretary is waiting for HR to provide the required profile for the different positions needed. This Bureau is expected to have at least 17 possible employees.</p>
<p style="text-align: center;">Bureau of Tax Crimes Investigations</p>	<p>Implement and complete investigation of felonies mentioned on the Tax Code and to refer this cases to the Department of Justice for accusation. Also, manage all the necessary requirements that take place outside the Department of the Treasury. They currently have a total of 55 employees divided in three offices as following:</p> <ul style="list-style-type: none"> • Central Office: 37 employees • Ponce District Office: 9 employees • Mayagüez District Office: 9 employees <p>*The office work cases from different districts, they do not focus in just the ones where their respective offices are located.</p>

c. Technology

Investigation case details (e.g., criminal investigation, professional services contracts, and economic status) are investigated using software from internal or external source. Internal systems are hosted and managed by ATI and have been mentioned throughout this document:

- ARBITRIOS is the system responsible for the calculation of taxes applicable to all articles imported to the island, including goods, vehicles and food products. It was developed using the Adabas/Natural platform
- PRITAS is the system responsible for the collection, payments and reconciliation of corporate taxes, and was developed using the COBOL II/CICS/DB2 platform. Primarily used as the data entry and it essentially serves as the accounting “engine” for all taxes, thus supposedly creating an integrated taxpayer current account
- REFO is the system responsible for processing individual taxes and was developed using the COBOL II/COBOL-VS/CICS and VSAM platforms

External information tools are hosted externally and managed by other government entities (e.g., federal agencies) that provide detailed information of taxpayers under investigation.

d. Sourcing and Locations

Sourcing:

The CFIA uses temporary administrative personnel from Kelly Services.

Locations:

The CFIA works from the Central Office in San Juan, but has 2 other district offices which are: Mayagüez and Ponce.

e. Performance Management

The Bureau is currently using an MS Excel template in order to maintain control of the investigation cases that have been received, opened and closed.

f. People and Skills

The following observations were identified:

- The Assistant Secretary indicated that 33% of CFIA personnel are relatively new
- The Bureau of Tax Fraud Intelligence mentioned that there would be a recruitment of approximately 17 new hires. These recruitments would be made by the Secretary’s Office without the assistance of Human Resource
- The Task Force Office currently has 30 employees that work directly with other investigations agencies. These personnel were trained by the Secretary’s Office, but they are permanently assigned to the other agencies. They cannot be moved to the other Bureaus
- Currently, the turnover ratio is low but according to the Assistant Secretary the new personnel has started to migrate to other investigations offices
- A significant percentage of their personnel is experienced and has been working for the



organization for several years

- There is a training plan that would be implemented in the near future. Right now, there is no formal training process in place and all trainings are provided by the Secretary's Office

6. Results and Opportunities for Improvement

6.1. Current Business Challenges

KPMG noted common challenges in the seven Bureaus that are impacting the Department's fundamental capability to accomplish its Mission. For better understanding of our analysis we have linked each challenge to the Operational Components that were mentioned in section 3.1. The high level findings and their descriptions will be presented in our observations and recommendations in Section 6.2 General Results and Opportunities **for Improvement** Opportunities. The **X** indicates where the issue impacts a bureau.

Table 1 - Challenges by Operational Component and Bureau

Challenges	Operational Component	NAF	NACCE	SAC	NIC	COLL	NP	CFIA
Lack of CSFs and KPIs	Performance Management	X	X	X	X	X	X	X
No formal training processes	Processes, People and Skills	X	X	X	X	X	X	X
No documented procedures	Processes	X	X	✓	X	✓	✓	X
Too many manual processes	Processes	X	X	X	X	X	X	X
Not process oriented	Processes	X	X	X	X	X	X	X
Lack of Controls	Governance, People and Skills	X	X	X	X	X	X	X
Temporary/ Subcontracted employees in key positions	People and Skills	✓	X	X	✓	X	X	✓
No integrated information systems	Information Technology	X	X	X	X	X	X	X

For better understanding of this chart, the following acronyms have been used for each Bureau:

Fiscal Audit (NAF), Tax Assistance and Specialized Consults (NACCE), Taxpayer Services (SAC), Consumption Tax (NIC), Collections (COLL), Processing (NP), Contribution Fraud and Intelligence Area (CFIA).

6.2. General Results and Opportunities for Improvement

The challenges listed before are detailed in the following Table:

Issue	Operational Component	Impact	Recommendations
Lack of process catalogue and documentation	Services, functions & processes	<p>Formal documented processes and up to date procedure manuals are not available and make the administration and performance management of the Fiscal Audit Bureau very challenging.</p> <p>A lack of documented manuals may cause delays/difficulties in the Tax Reform adoption, because the impact on existing processes and procedures cannot be determined appropriately.</p>	In the short term, the Bureaus should review, identify, formalize and document their critical business processes and policies that are intended to set the point of reference to any possible change that may derive from a Tax Reform in order to leverage from mechanisms that can be used eventually to improve their operational model.
Lack of effective and formalized performance management	<ul style="list-style-type: none"> • Performance Management • People and Skills 	A lack of ability to measure and manage the performance of the tax administration operations will limit the Department's capability to introduce leading practices, incentivize excellence and continuous improvement	<p>Define key performance indicators that measure the performance of the Bureau and its staff for effective management and decision making.</p> <p>Those performance indicators should be automatically generated from the operational systems with no manual intervention.</p>
Unreliable and difficult to	<ul style="list-style-type: none"> • Services, 	It is difficult to draw conclusions in the Bureaus due to availability,	Careful consideration of required remedial work to rectify current processing problems and issues will be critical as a

Issue	Operational Component	Impact	Recommendations
access information	functions & processes <ul style="list-style-type: none"> • Performance Management • Technology 	accessibility and quality of information Lack of reliability in IT systems lead to inconsistent or inaccurate processing of business information (e.g., Tax return forms that are suspended, misapplied credits or other inconsistencies related by system failures or functional errors caused by end users). Leaving this situation as is will impact the effectiveness of the future systems by not having reliable historical information, for example, on which to base trend analysis and to detect potential fraud or tax evasions.	first step in the implementation of the tax reform program. In considering the cost and impact of performing or not the remediation it is very important to first assess the impacted processes and then identify the minimum amount of automation that can be designed to maximize data corrections in preparation to migrate historical and operational data to the new tax administration systems.
Lack of integration between the multiple tax application systems (e.g. REFO, ARBITRIOS, PRITAS) which use different databases, software and applications	Technology	There are several information technology issues that significantly affect the Department's ability to effectively and efficiently implement a tax reform. Chief among them is insufficient integration between core systems which result in the lack of: <ul style="list-style-type: none"> • Automation of daily collections. • Tracking of all liabilities owed; all payments made; and set audit trails for all debits and credits. • A central current-account module for individuals, which provides details related to each 	One of the first projects in the transformation roadmap to be defined and scheduled early in the process is the identification and prioritization of the changes to be made to the legacy systems, including development of additional interfaces, to provide the minimum sufficient functionalities and database consolidations to mitigate some of the capability shortcomings identified in this issue.

Issue	Operational Component	Impact	Recommendations
		<p>taxpayer's liabilities for all type of taxes</p> <ul style="list-style-type: none"> • Real time information availability (which impacts processes that cannot be completed until the end of day batch update processes) • Electronic controls • Compliance with deadlines. 	
Lack of Department-specific training programs	People and Skills	<p>A lack of formal on boarding and training results in improper execution of processes and systems.</p> <p>Employees are not trained on policy reform changes and legislation, which may result in errors or delays in processing tax returns or application of rulings.</p> <p>This could affect the implementation of the Tax Reform in the training of new and existing employees in the expected changes to the operations, policies and legislation of the Department.</p>	The Department needs to work with the Training and Development Center (HR) in order to implement a formal training process that can be tailored to the new requirements of the Tax Reform program.
No formal development plan for Department's personnel	People and Skills	There is not a staff progression plan, which may result in higher levels of staff dissatisfaction and turnover.	Develop a formal employee development program that includes technical and non-technical skills and capabilities.
High employee turnover	People and Skills	Currently, experienced employees are leaving the Department, due to,	Implement an exit survey to be completed by employees leaving the department to understand the reasons for their

Issue	Operational Component	Impact	Recommendations
		among other things, Law 70, which results in less experienced staff by temporary replacements.	departure. Design and implement an employee survey to understand the current labor climate in the Department and to identify key issues to be addressed.
Contracted personnel performing key roles in core areas of the business (Processing, Collections and Taxpayer Services Bureaus).	<ul style="list-style-type: none"> • People and Skills • Sourcing 	<p>Disruption of core operations due to a high turnover ratio, because most of these employees leave the organization when their contract is over or even before that. Also, the time/cost invested in their training is lost.</p> <p>There is a high risk to have contracted personnel in areas such as Collections that work directly with the revenue of the department. The high turnover ratio could affect or delay any significant changes to be made in the near future due to the Tax Reform, because critical operational knowledge is lost.</p>	<ul style="list-style-type: none"> • As recommended above, implement the personnel development program to ensure that staff understand their prospective career path and acquire the capabilities and technical expertise that this implies. • Design and implement a Succession Plan for key staff to ensure that there is a capable replacement for individuals that leave or are promoted. • Develop a policy to ensure that core process roles are not performed by contracted personnel, unless the circumstances are unavoidable (i.e. no replacement is readily available)
Most roles and job description for the Internal Revenue Area have not been updated since 1996.	People and Skills	Employees perform activities outside of their current role. The job descriptions have not been updated to reflect these activities. Staff must be clear on their expected roles and responsibilities and job expectations before an important change like a Tax Reform Project is	<p>Update the current roles and job descriptions, including position classifications. This will:</p> <ul style="list-style-type: none"> • Align current roles and position classifications • Provide staff with a better understanding of current expectations • Identify what positions will have the biggest impact on the Tax Reform Project, making them more aware of

Issue	Operational Component	Impact	Recommendations
		undertaken. Not knowing what is expected could generate a resistance to change.	the changes to come.
Inefficient/sub-optimal capacity in Consumption Tax, Collections and Processing Bureaus	<ul style="list-style-type: none"> • Services, functions & processes • Performance Management • Technology 	The lack of capacity in the collections may result in poor execution. This may result in a decreased ability to attract investors to strengthen economic activity in Puerto Rico.	In the short term, the Department of The Treasury should consider the adoption of an operative model, based on the parameters defined by a new Tax Reform that can allow them to improve and optimize its tax and contributions collections mechanisms, through the incorporation of effective, transparent and clearly defined services, supported by technologies, processes and trained personnel.

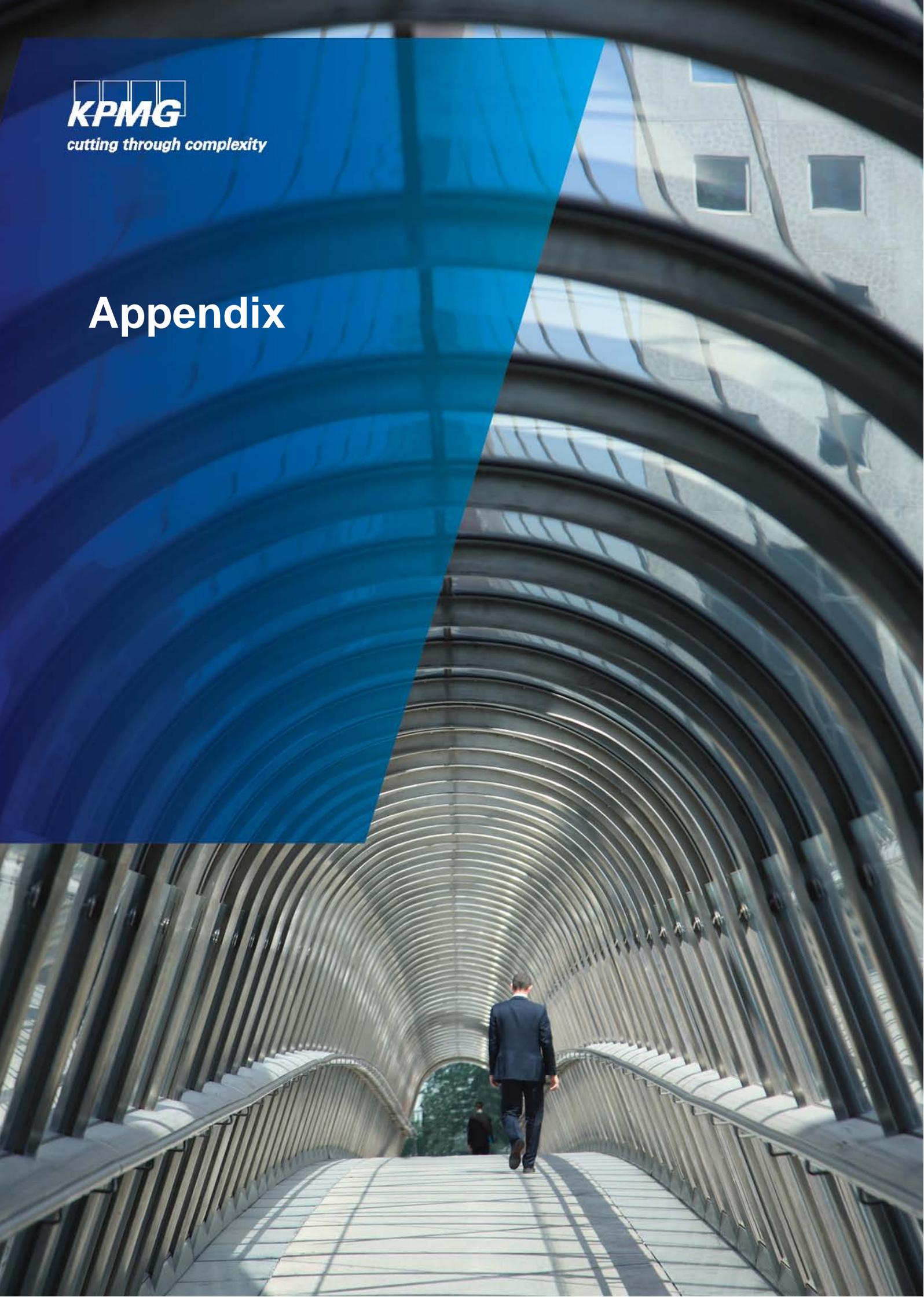
6.3. Results and Opportunities for Improvement by Bureau

Bureau	Issue	Operational Component	Impact	Improvement Opportunity
Fraud Intelligence Area	There is limited collaboration with the Fraud Intelligence Office on potential tax evasions in order to conduct a fraud investigation.	Services, functions & processes	Possible cases of tax evasion cannot be dealt with timely to minimize tax revenue loss.	Develop and implement a structure for the identification and submission of possible cases of tax evasion to the Fraud Intelligence Office.
Collections Bureau	A large percent of the regular workforce occupies low level positions and there are few Collectors to provide service to the 89 collecting agencies. There are a lot of Assistants and Technicians assuming interim Collector/Supervisor roles without receiving a salary adjustment	People and Skills	This leads to unmotivated personnel occupying the interim role and to a lack of accountability from them. Also, there could be personnel without the required skills to occupy these Interim Collector roles.	The current structure should be analyzed to determine which experienced employees could be promoted to Collectors, in order to have at least one formal Collector on reach of the 89 collecting agencies. If the Interim Collector doesn't have the required skills, then a recruitment process must take place to find a competent employee that can meet the needs of the Bureau.

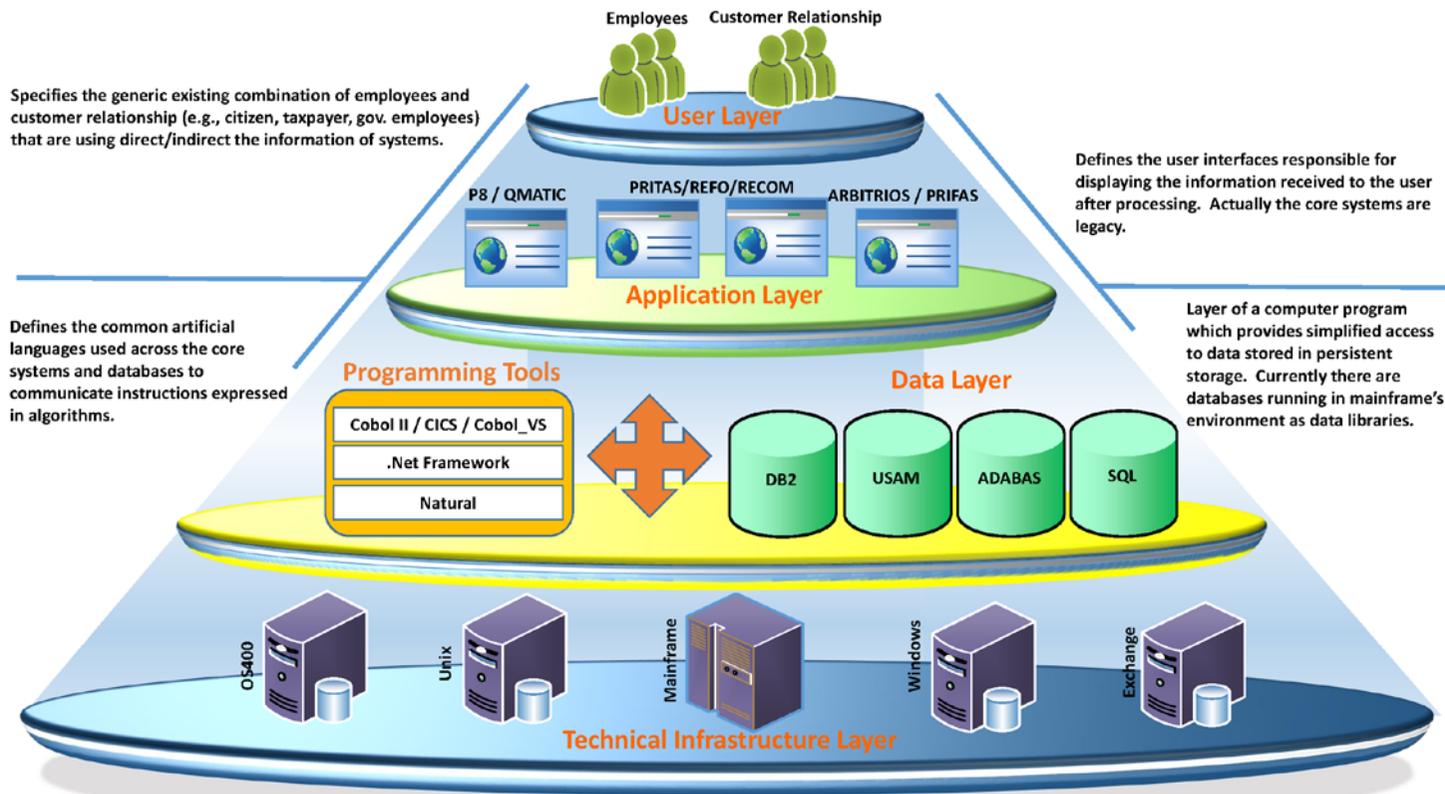


cutting through complexity

Appendix



A. Information Technology that Supports the Current Operating Model



B. Summary of Bureau Characteristics

Bureau/Components	Technology	Locations	Performance Management	People		
				Hired Aprox.	Contracted Aprox.	Total Aprox
5.1 Fiscal Audit Bureau *	ARBITRIOS PRITAS REFO P8 SAF (System of Tax Audit)	Intendente Ramírez Tower, with 7 Fiscal Audit Districts: San Juan Metro Area, Arecibo, Bayamon, Caguas, Humacao, Mayaguez, Ponce	Indicators: - Quantity of open cases - Quantity case closed - Priced Deficiencies - Impairments charged	229	8	237
5.2 Taxpayer Services Bureau *	REFO PRITAS QMATIC	Eight centers which are: San Juan Intendente, San Juan Mercantil Plaza, Bayamon, Caguas, Arecibo, Aguadilla, Mayaguez, and Ponce.	There are some statistical reports that summarize the number of cases managed for weeks, months and years. Another report that reflects the waiting time for the taxpayers and the time it took the employee to resolve the case.	100	142	242
5.3 Processing Bureau **	PRITAS REFO	The Bureau is located within the main office of the Department in the Intendente Ramirez Building.	Main reports are the following: - Payment plans monthly report - Collections monthly report - Foreclosure reports	N/A	N/A	N/A

Bureau/Components	Technology	Locations	Performance Management	People		
				Hired Aprox.	Contracted Aprox.	Total Aprox
5.4 Collections Bureau *	RECOM PRIFAS ARBITRIOS PRITAS REFO	<p>The Director’s Office, Special Procedures Division, Accounting Division and Fiscal report Division are located in San Juan.</p> <p>The Compliance and Collection Division has 10 district offices located in: Arecibo, Bayamon, Caguas, Carolina, Guaynabo, Humacao, Mayaguez, Ponce, Rio Piedras and San Juan.</p> <p>The Collectors Division has 7 Administration Offices, divided into 89 Collecting Agencies.</p>	<p>Main reports are the following:</p> <ul style="list-style-type: none"> - Payment plans monthly report - Collections monthly report - Foreclosure reports 	565	282	847
5.5 Consumption Tax Bureau **	ARBITRIOS PRITAS	Part of the personnel work on the main office but the larger part of the personnel works on the 8 district offices located in: Aguadilla, Arecibo, Bayamon, Caguas, Humacao, Mayaguez, Ponce, San Juan-Carolina (Mercantil Plaza).	The Bureau has a system that allows them to consult some task assigned. Additionally, they are about to implement a new measurement control on the tablets that are being used on inspections, that will allow them to monitor the current location of their inspectors	N/A	N/A	N/A

Bureau/Components	Technology	Locations	Performance Management	People		
				Hired Aprox.	Contracted Aprox.	Total Aprox
5.6 Tax Assistance and Specialized Consults Bureau *	REFO PRITAS QMATIC	The Bureau works from the Central Office in San Juan.	This Bureau uses Q-matic, which helps them maintain control over their personnel and workloads. This tool allow the group leader to generate and obtain reports of the volume of cases attended within this Bureau.	37	25	62
5.7 Contribution Fraud and Intelligence Area **	ARBITRIOS PRITAS REFO	The Bureau works from the Central Office in San Juan, but has 2 other district offices which are: Mayaguez and Ponce.	Indicators: - Amount of open cases - Amount of case closed - Priced Deficiencies - Impairments charged	N/A	N/A	N/A

* The estimated headcount data has been provided by the Director of this Bureau.

** Estimated headcount not provided at the time of developing this report.