

**Commonwealth of Puerto Rico  
Tax Reform Assessment Project**

*Current Operating Model Assessment*

Revised October, 2014

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KPMG's role is limited to the services and deliverables articulated in the Contract for Professional Services dated March 18, 2014 as subsequently amended (the "Engagement Contract"). It is understood that any actions taken by the Government of the Commonwealth of Puerto Rico related to these services and deliverables may involve numerous factors that are outside of the Contract's scope. KPMG's services and deliverables cannot take such factors into account and, therefore, recommendations for such actions are not implied and should not be inferred from these services and deliverables. Further, while such deliverables may include analyses of certain legislative initiatives, no service described in the Engagement Contract and/or subsequent amendments will involve advising the Department regarding lobbying or other public policy advocacy activities related to legislation or regulation, including evaluating the likelihood of enactment of any proposed initiative or providing advice to the Department as to methodologies to ensure enactment. KPMG cannot undertake any role in connection with the Contract services that could be deemed lobbying, public policy advocacy, or impair the independence of KPMG as an auditor for the Department of the Treasury such as drafting legislation and engaging in implementation assistance.

# 1 Background

KPMG has been assessing the Puerto Rican tax structure to develop a set of alternative scenarios for the Department of Treasury to evaluate how a revamped tax system will provide the desired revenues through a more streamlined and effective system that results in more effective oversight.

KPMG met with the Secretary of the Treasury and her colleagues to discuss in more detail the parameters to be considered during the execution of this engagement. The Secretary stated that her goals 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

The methodology used by KPMG to assist the Department of Treasury in achieving those objectives requires understanding of how the department currently operates and performs. Our understanding of the current state allows us to recommend actionable and implementable improvement scenarios taking into consideration the Department's existing capabilities. Prior to this report, KPMG documented a generic current operating model that served as the basis for this report.

## 2 About this Report

### 2.1 Purpose of the Generic Actual Operating Model

The objective of the Current Operating Model Assessment is to broaden our understanding of the operations and performance of the Department. This assessment is used as a baseline for measuring the impact of possible improvement scenarios and furthermore creates consensus on how the department currently operates. KPMG grouped this assessment of the current operating model into six (6) components. 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 Current Operating Model Assessment identifies situations that need to be addressed in order to start the transformation process towards the future state operating model design. The future operating model is expected to provide the following benefits:

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

### 2.2 Report Scope

KPMG's analysis consisted of the following tasks:

- Met with key personnel within the Bureaus to understand the current operations of the IRA and CFIA
- Conducted walkthroughs of the main processes in each of the Bureaus to obtain first-hand information and feedback from some of the operations personnel
- Identify challenges that may impede future alignment of process owners with and the Target Operating Model
- Observations and recommendations

### 2.3 Document Structure

The report has the following structure:

- A more detailed description of the current operating model, describing its six logical components, as listed in 2.1
- Public information regarding Tax Administration Systems in other jurisdictions in order

to have comparative information within the Internal Revenue Area processes (Section 4)

- Gaps analysis and recommendations for improvement of the Internal Revenue processes and operating model in general (Section 5)

### 3 Current Operating Model Components Assessment

An operating model is the manifestation of the operations strategy of an enterprise. It describes how the enterprise operates across the process, organization, and technology domains in order to deliver the value defined by its business strategy. In essence, the operating model is the delivery vehicle of the business model; it is what makes the business model's idea real.

Operating models have inherent complexity with many components interacting to deliver the enterprise's products and services. Therefore, operating model assessment and design requires a holistic approach for dealing with complex systems. A design technique used to address complex business problems is to break the problem into logical components to better structure the assessment and design process.

#### 3.1 Services, Processes & Functions

The assessment of current services, functions and processes allowed KPMG to demonstrate major functional issues and inconsistencies with process design and IT architecture. The assessment of services and processes helped to highlight the core processes, major bottlenecks, hand-off points and backlogs.

##### 3.1.1 Business Architecture

The purpose of this section is to describe the current high level Business Architecture (BA) of IRA. This BA is a holistic description of the context where the IRA operates, the value chain of the current operations, the services it receives from internal providers or provides to external / internal clients and the core business processes currently executed in IRA. This high level structure will allow the Department to align the business' requirements with the application, data and technology that will support its Target Operating Model.

The methodology that was used to understand the current context, value chain, services, and core business processes is outlined in the figure below:

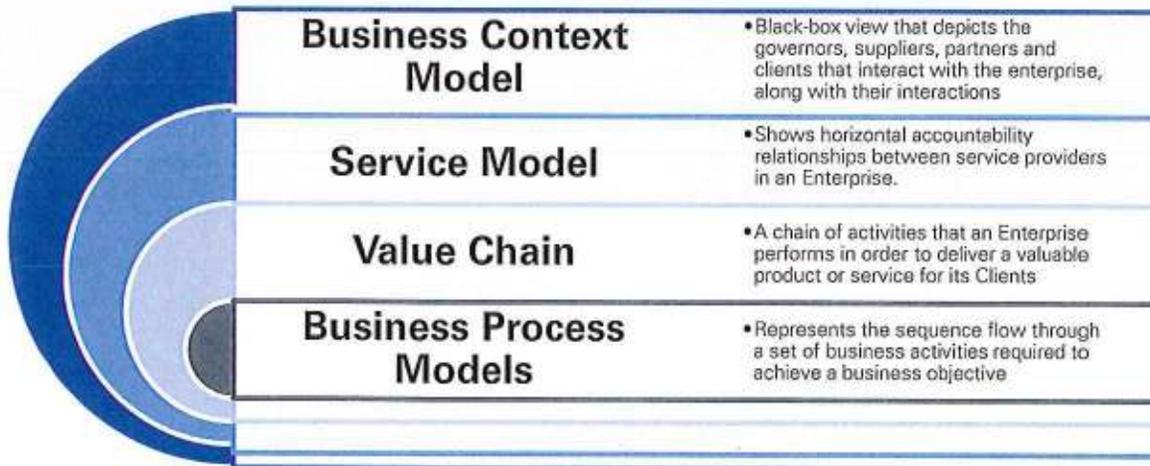


Figure 1. Business Architecture Layers Assessed in IRA

### 3.1.2 Business Context Model

The business context model describes the high-level context under which IRA operates. This model provides an outside-in view of IRA, identifies the actors (parties) that it interacts with and the nature of those interactions. The actors are grouped as:

- Target Groups: The recipients of the IRA services, including Individual Taxpayers, Corporations, Government Employees and Bondholders
- Governors and Influencers: Those who direct, steward or influence the operations of IRA, including Puerto Rico Central Government, United States of America Government, Government Development Bank, Legislative Assembly
- Suppliers (internal and external) of: Information Technology (ATI) and Contract/Temporary Personnel Providers
- Partners and Agents: including Customs, Municipalities, Banks and Tax Return Specialists (authorized private companies that help individual taxpayers to complete and submit their Tax Returns)

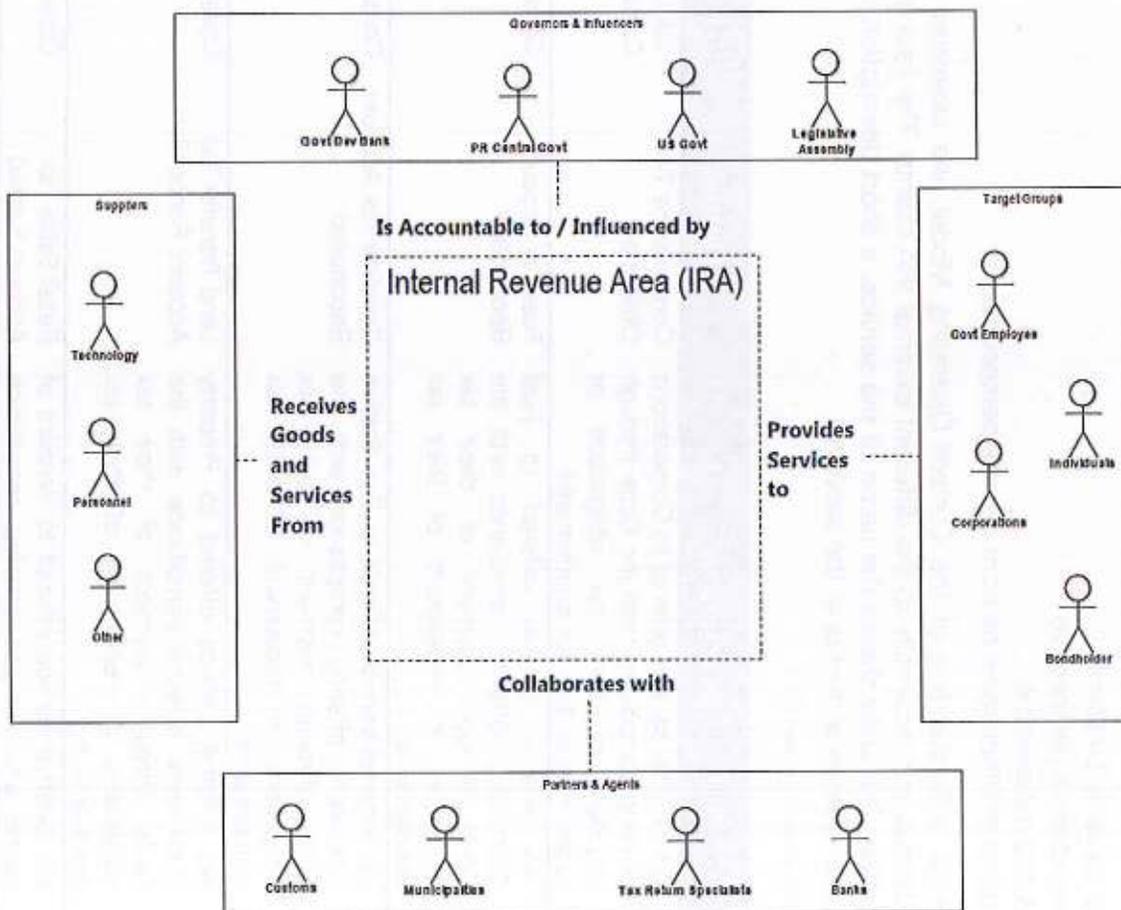


Figure 2 IRA's Business Context Model

### 3.1.3 Current Business Services

A Business Service implies the creation of a desirable change in its clients' needs by providing valuable outputs that are:

- Deemed valuable by client
- Final from client's perspective
- Discrete and measurable
- Independent of other services from client's perspective

In order to get a strategic understanding of the Current Operating Model, we assessed the current Business Services provided internally between Bureaus and externally to the different external IRA clients. The lists of the current Business Services identified in IRA are detailed below. The table shows the name of the service, a short description of its purpose, the current owner, current output and current internal/external clients of the service.

Table 1 - Description of the Services currently provided in IRA

| Service                          | Description  | Output                               | Owner                  | Client(s)                          |
|----------------------------------|--|--------------------------------------|------------------------|------------------------------------|
| <b>Corporations Tax</b>          | An external service offered to Corporations offering compliance with the Code through payment of their tax obligations or repayment of their tax entitlements          | Corporations Tax Obligation          | Tax Return Calculation | Corporate Taxpayer                 |
| <b>Fuel Tax Service</b>          | An external service offered to Fuel Distributors offering compliance with the Code through payment of their tax obligations or repayment of their tax entitlements     | Fuel Tax Account Reconciled          | Consumption Tax        | Corporate Taxpayer                 |
| <b>Gasoline Tax Service</b>      | An external service offered to Gas Station Operators offering compliance with the Code through payment of their tax obligations or repayment of their tax entitlements | Gasoline Tax Account Reconciled      | Consumption Tax        | Corporate Taxpayer                 |
| <b>Land Transfer Tax Service</b> | An external service offered to Property Purchasers offering compliance with the Code through payment of their tax obligations or repayment of their tax entitlements   | Land Transfer Tax Account Reconciled | Collections            | Individual and Corporate Taxpayers |
| <b>Retail Sales Tax Service</b>  | An external service offered to Vendors of goods and services offering compliance   | Retail Sales Tax Account Settled     | Consumption Tax        | Corporate Taxpayer                 |

| Service   | Description   | Output                                   | Owner                  | Client(s)                          |
|---|---|--|------------------------|------------------------------------|
| <b>Tobacco Tax Service</b>                                | with the Code through payment of their tax obligations or repayment of their tax entitlements<br>An external service offered to Tobacco Distributors offering compliance with the Code through payment of their tax obligations or repayment of their tax entitlements  | Tobacco Tax Account Settled              | Consumption Tax        | Corporate Taxpayer                 |
| <b>Taxpayer Appeal Service</b>                            | An external service offered to Taxpayers offering impartial resolution on an objection or appeal  | Ruling on a taxpayer objection or appeal | Tax Appeal             | Individual and Corporate Taxpayers |
| <b>Environmental Social Economic and Cultural Service</b> | An external service that provides consumers with tax rebates based on specific goods that are deemed to provide environmental, social, economic and cultural value and therefore exempt from taxation   | A tax exemption                          | Consumption Tax        | Individual and Corporate Taxpayers |
| <b>Vendor Permission Service</b>                          | An external service that according to the Code, no person shall sell or deliver in Puerto Rico goods for resale unless the person holds a wholesaler's permit issued to the person in such form and manner as the Minister requires   | A wholesaler permit                      | Consumption Tax        | Corporate Taxpayer                 |
| <b>Integrated Tax Account (Tax Roll) Service</b>          | An external service that registers taxpayers (name, address, contact information, other attributes), determines taxes or charges that taxpayer is obliged to pay, collects registration fees, posts bonds, establishes taxpayer accounts, maintains taxpayer information and history (e.g., address changes), identifies non-registered taxpayers (e.g., data matching), returns mail, and closes out & archives taxpayer accounts. | A managed tax account                    | Collections            | Individual and Corporate Taxpayers |
| <b>Tax Filing Service</b>                                 | An external service that issues, files and receives returns/installments.   | Tax Filing                               | Tax Return Calculation | Individual and Corporate Taxpayers |
| <b>Tax Assessment Service</b>                             | An internal service that assesses returns, re-assesses returns, calculates tax credits  | Tax Assessment                           | Fiscal Audit           | Collections Bureau                 |

| Service                                   | Description  | Output                           | Owner  | Client(s)   |
|---|--|----------------------------------|--|---|
| <b>Tax Payment Service</b>                | and liabilities, calculates penalties, and corrects returns<br>An external service that makes tax payments, receives payments from taxpayers, applies payments to accounts, and corrects payments (change, reverse, reapply)   | A settled tax payment            | Collections                                    | Individual and Corporate Taxpayers                      |
| <b>Tax Refund Service</b>                 | An external service that issues refunds to taxpayers, and corrects refunds (change, reverse, reapply). Refunds include refundable tax credits (e.g., film tax credits, etc.), rebates to individuals (e.g., appliance rebate, vehicle rebates for physically disabled, RST rebates for visitors, etc.).    | A settled tax refund transaction | Tax Assistance and Specialized Consults        | Individual and Corporate Taxpayers                      |
| <b>Integrated Profile Service</b>         | An internal service that makes a comprehensive view of the status of all tax accounts associated with a taxpayer, including transaction summary and detail. Will allow the triggering of other tax services, such as posting a payment, transferring funds between tax accounts, and filing returns.       | Profile information and status   | Tax Assistance and Specialized Consults Bureau | Collections Bureau                                      |
| <b>Integrated Tax Accounting Service</b>  | An internal service that makes adjustments to tax accounts based on payment corrections, refund corrections, and postings to the wrong account   | Tax account adjusted             | Tax Assistance and Specialized Consults Bureau | Collections Bureau                                      |
| <b>Trade Licensing Permission Service</b> | An external service that issues trade licenses, permits, registrations and certificates necessary to conduct various trade activities (e.g. manufacture tobacco, transport fuel)   | Trade License                    | Consumption Tax Bureau                         | Corporate Taxpayer                                      |
| <b>Integrated Tax Collections Service</b> | An internal service that identifies delinquent tax filers or tax accounts in arrears, issues dunning notices for late-filed return, issues dunning notices for no-pay or short paid returns, identifies collection ), calculates penalty and interest, sets risk criteria to stream for appropriate action | Tax obligation owing             | Collections Bureau                             | Tax Return Processing Bureau and Consumption Tax Bureau |

| Service                                      | Description   | Output                          | Owner  | Client(s)                          |
|--|---|---------------------------------|--|------------------------------------|
| <b>Coordinated Tax Account Audit Service</b> | <p>(habits), tracks collection stage or status, records payment schedules (provide e-payment arrangement option), actions defaults on payment arrangements, registers liens, writes off tax payable on accounts (bankruptcies, insolvency), processes collections (dunning, estimated assessment, calls, assign to work stack with priority level for defined collection action), and initiates legal action against delinquent tax filers or accounts. Tax collection is currently handled both centrally and by field collectors.</p> <p>An internal service that selects audits (plans, identifies candidates, assigns candidates), executes audits, manages working papers, triggers reassessments, provides feedback on effectiveness of audit selection criteria, creates estimated assessment for taxpayers who failed to file, and explains assessments or reassessments through audit summary letter</p> | Tax Account Audited             | Fiscal Audit Bureau                            | Collections Bureau                 |
| <b>Field Inspection Service</b>              | <p>An internal service that schedules inspections, conducts inspections, lays charges, and enforces penalties or sanctions.</p>   | Tax Account Violation Rectified | Fiscal Audit Bureau                            | Collections Bureau                 |
| <b>Special Investigation Service</b>         | <p>An internal service that requests investigations, investigates taxpayers, lays charges, participates in court action, enforces penalties or sanctions, and publicizes penalties or sanctions</p>   | An enforcement action           | Fiscal Audit Bureau                            | Collections Bureau                 |
| <b>Tax Education Service</b>                 | <p>A public service that determines educational needs of taxpayers, designs, develops &amp; maintains education curriculum &amp; materials, schedules &amp; promotes tax seminars, delivers tax seminars, evaluates tax seminars and curriculum, and monitors</p>   | A seminar or forum              | Tax Assistance and Specialized Consults Bureau | Individual and Corporate Taxpayers |

| Service                                       | Description  | Output                              | Owner  | Client(s)                          |
|---|--|-------------------------------------|--|------------------------------------|
| <b>Tax Compliance Promotion Service</b>       | voluntary compliance of participants.<br>A public service that determines compliance information needs of taxpayers, designs, develops & maintains promotional materials, participates in trade shows, and plans & implements promotional campaigns. | A Compliance Campaign               | Tax Assistance and Specialized Consults Bureau | Individual and Corporate Taxpayers |
| <b>Tax Revenue Publication Service</b>        | A public service offering tax revenue publications in a variety of media formats to inform businesses and consumers about tax obligations and entitlements.  | Tax revenue publication distributed | Tax Assistance and Specialized Consults Bureau | Individual and Corporate Taxpayers |
| <b>Tax Advisory Service</b>                   | A public service that develops consultation tools to facilitate filing, schedules client consultations, visits clients and delivers consultation (performed by field service officers).  | A Tax Advice                        | Tax Assistance and Specialized Consults Bureau | Individual and Corporate Taxpayers |
| <b>Tax Legislation Interpretation Service</b> | A public service that receives requests for interpretation or ruling, analyzes issues, and provides interpretations or rulings.  | Tax policy interpretation or ruling | Tax Assistance and Specialized Consults Bureau | Individual and Corporate Taxpayers |

The Business Services detailed in the Table above have been divided in following three diagrams to separately illustrate the Services provided to Corporations, Individuals and the Collections Bureau; independently of the Bureau, Division or Section that owns the service. Some Business Services will be repeated in the diagrams because they are provided to Corporations and Individuals.

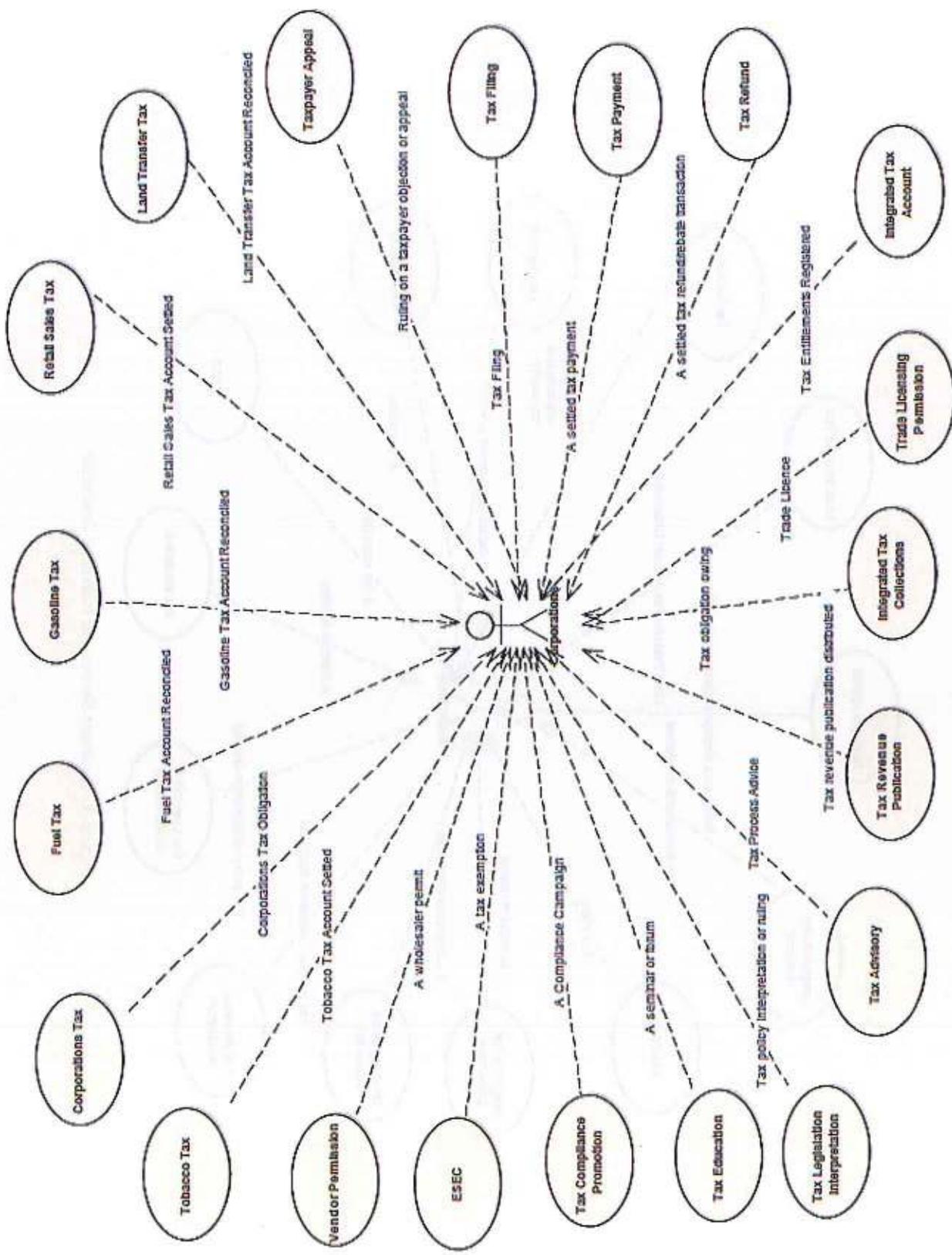


Figure 3 - Current Business Services provided to Corporations

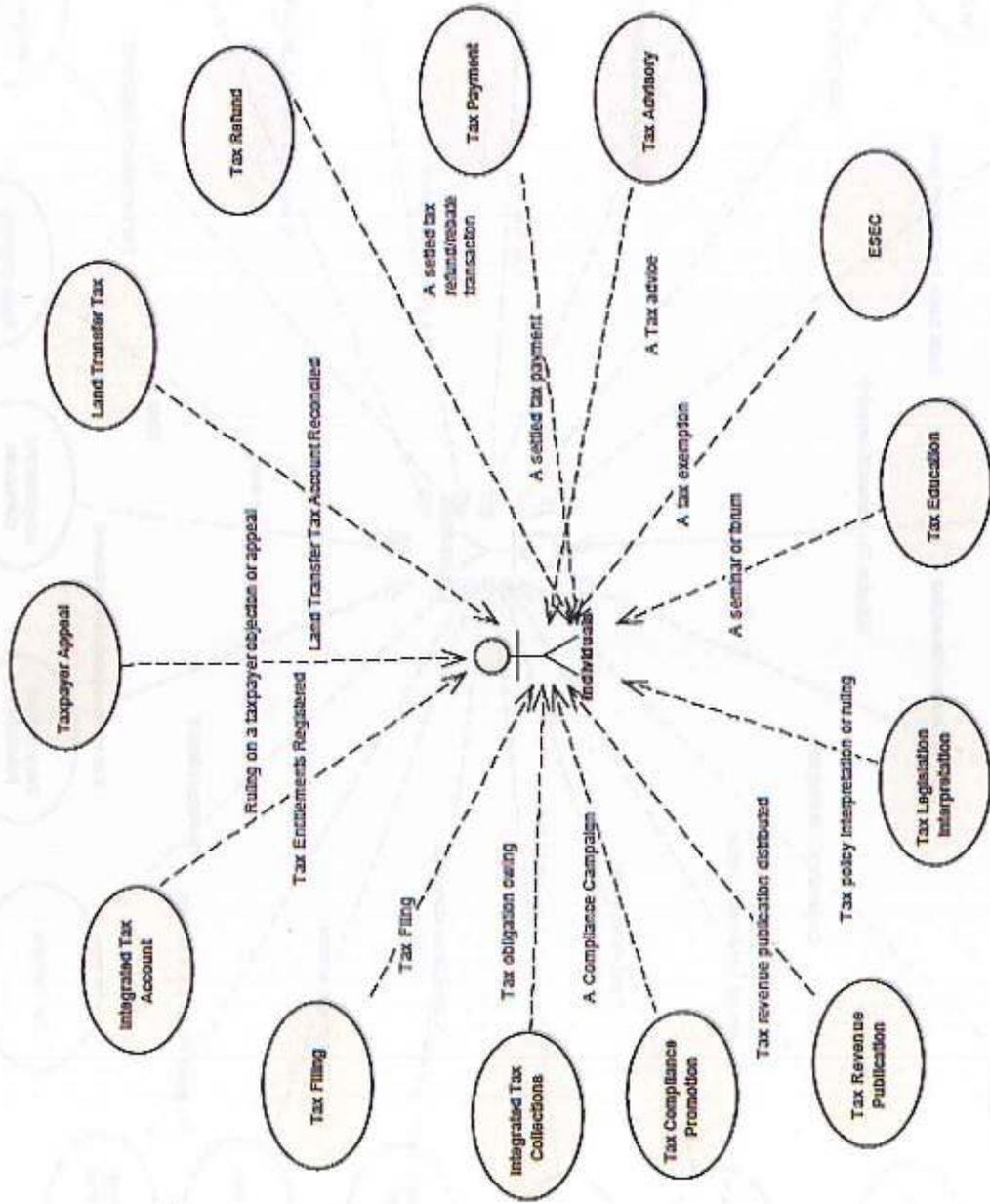


Figure 3 - Business Services to Individual Taxpayers

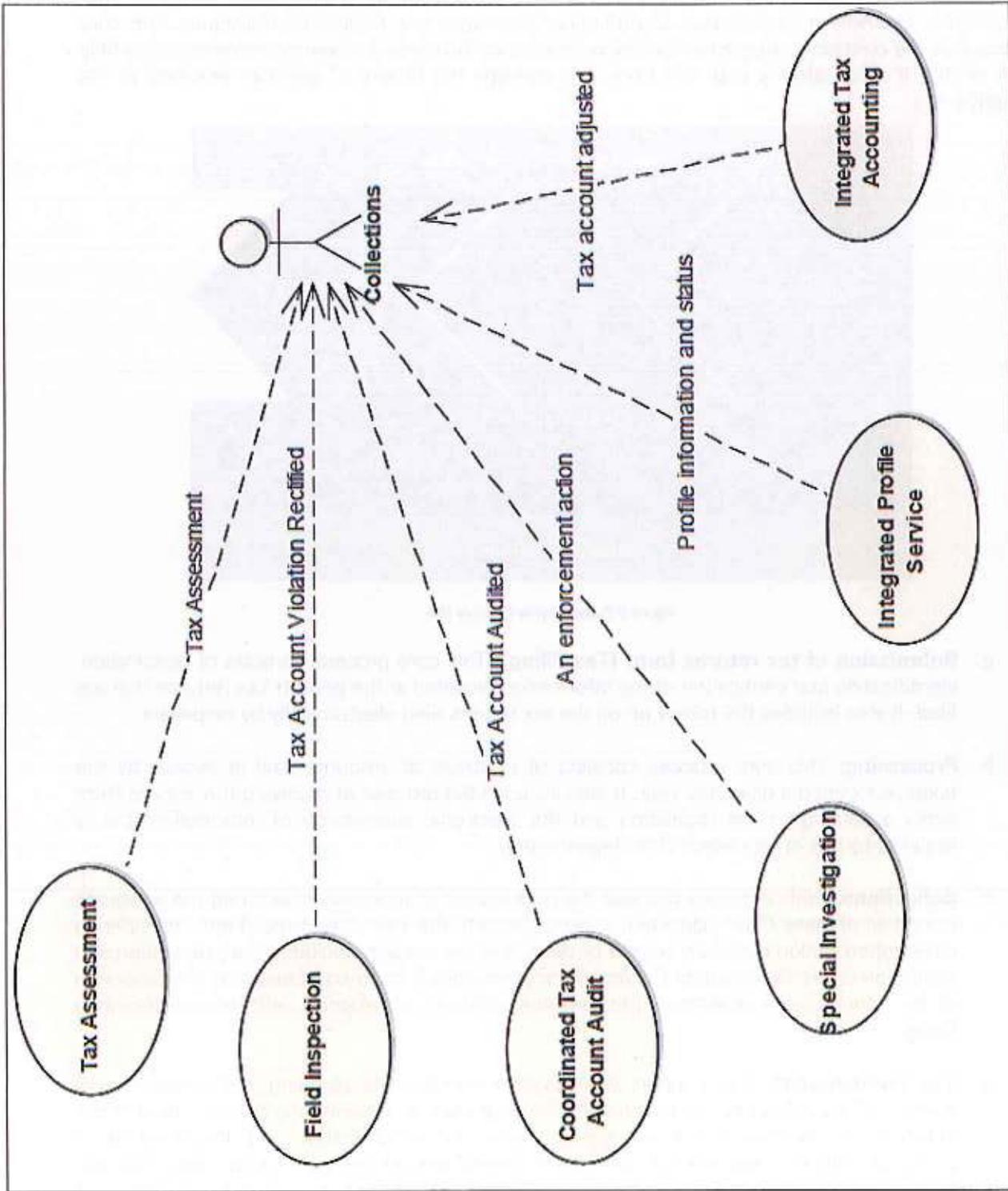


Figure 5 Business Services Provided to Collections Bureau

### 3.1.4 Current Value Chain

The analysis of the current value chain allows us to link the improvement opportunities and recommendations to specific valuable services that are created and delivered by the Department.

KPMG confirmed that IRA's Current Value Chain (see Figure 6) is composed of three core processes: Tax Return Registration, Contribution Calculation and Collect Contributions. The core processes are constantly supported by Enforcement and Taxpayer Assistance processes that help IRA control the compliance with the Code and manage the quality of services provided to the taxpayers.

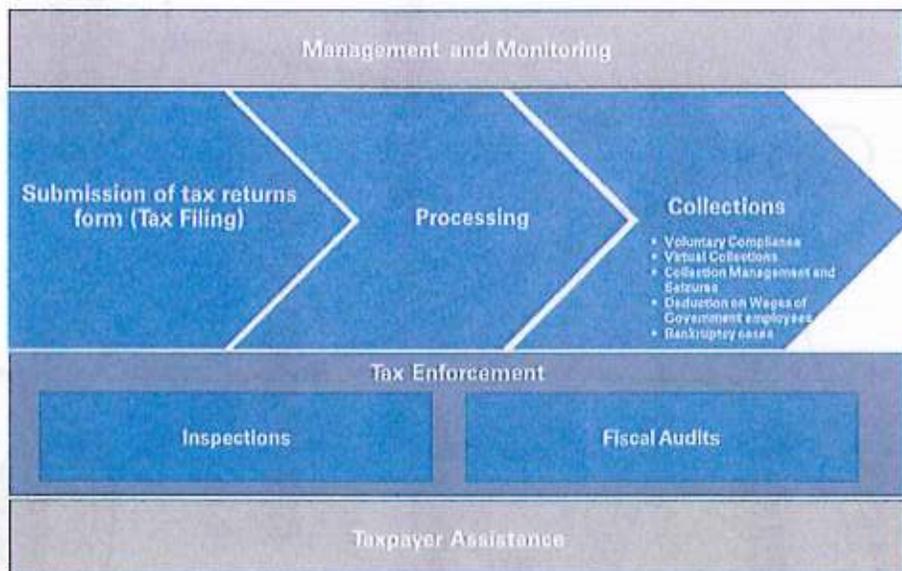


Figure 6 Current Value Chain of IRA

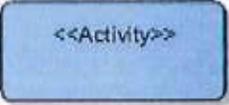
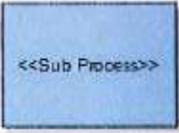
- a. **Submission of tax returns form (Tax Filing):** This core process consists of registration, identification and verification of the information provided in the printed Tax Returns that are filed. It also includes the follow up on the tax returns filed electronically by taxpayers.
- b. **Processing:** This core process consists of returning of 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).
- c. **Collections:** With this core process the organization is focused on assuring the adequate collection of taxes (Tax Collection), in accordance to the Tax Code dispositions, considering different collection methods in case of debts and tax evasion. 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.
- d. **Tax Enforcement:** This support 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 following 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 correspondent Bureau on how to proceed for the collection procedure. Once a taxpayer has been inspected and identified as a tax evader or fraud, a formal criminal investigation takes place to dictate a court sentencing. The evidence obtained on possible fraud or violations of fiscal laws are submitted to the Department of Justice.

- e. **Taxpayer Assistance:** This support process consists of providing assistance to different taxpayers concerning any tax service provided by IRA, as well as issue resolution related to contribution calculations. It also includes the development and execution of programs to guide, regulate and train the community on topics related to taxes.

### 3.1.5 Business Process Model

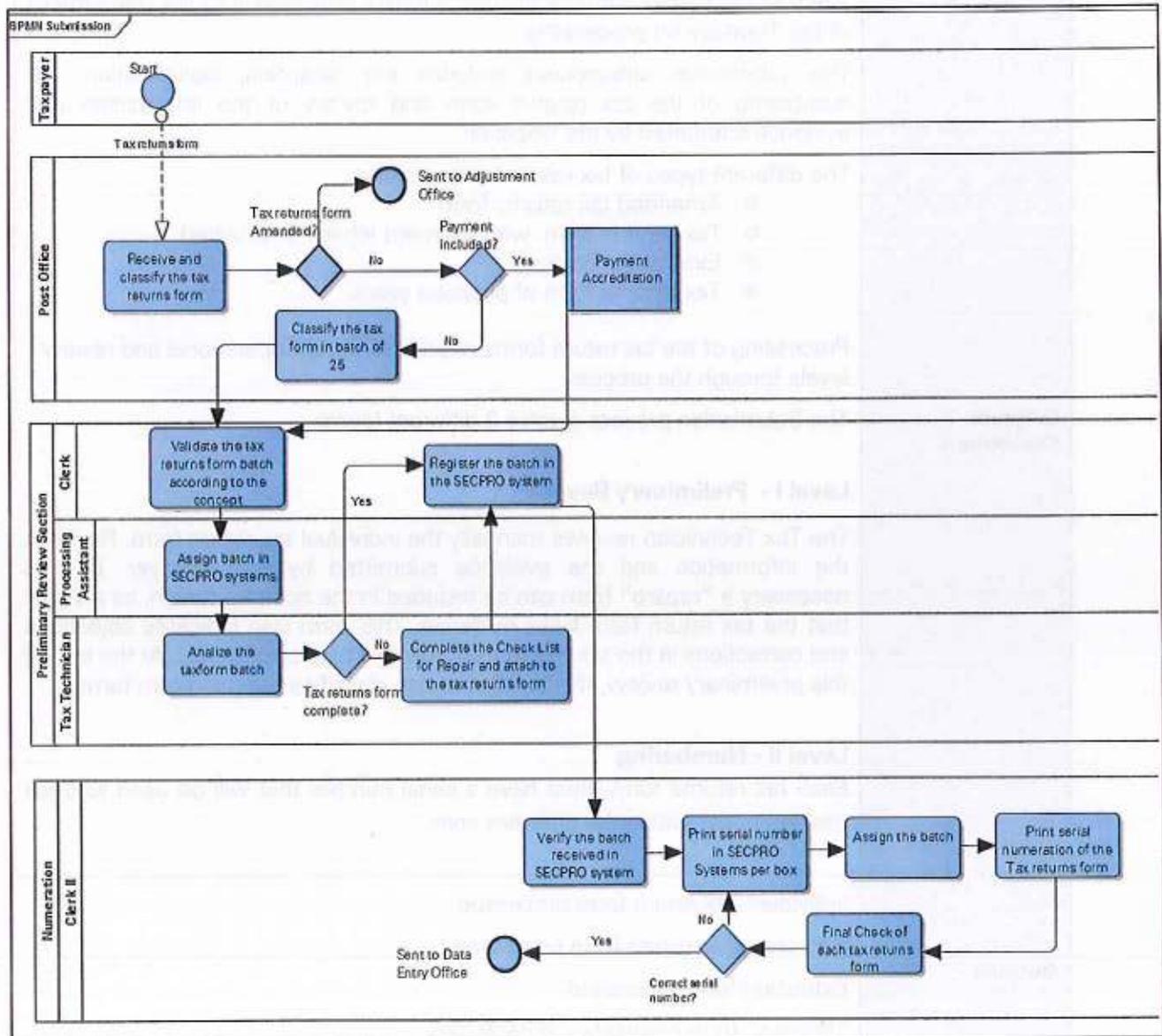
Section 3.1.5 provides insight on the value chain's core processes within the Internal Revenue Area. Each process has been drilled down in order to gain a deeper understanding about its current status, including its objective, inputs and outputs. Additionally, in order to provide visual aid, each process presents a diagram based on Business Process Management Notation (BPMN 1.0), considering the following nomenclature:

| Item   | Action   |
|--|--|
|                     | <p>Represents work that is performed within a Business Process. An Activity can be modeled as a:</p> <ul style="list-style-type: none"> <li>■ Sub-Process - a compound Activity that is defined as a flow of other BPMN 1.1 elements, or</li> <li>■ Task - an atomic Activity that cannot be broken down into a smaller unit</li> </ul> <p>As a sub-process, the Activity can be made a composite element that links to a child diagram containing the flow of other BPMN elements</p> |
|                     | <p>Includes a series of activities supporting a business process.</p>  |
|  <p>Start Event</p> | <p>Defines the initiating event in a process.</p>  |
|  <p>End Event</p>   | <p>Defines the terminating event in a process.</p>   |

| Item   | Action   |
|--|--|
|  <p data-bbox="305 394 418 422">Error Event</p>   | <p data-bbox="521 327 1057 359">Defines an error or disruption event in a process.</p>   |
|  <p data-bbox="285 562 435 590">Message Event</p> | <p data-bbox="521 527 1182 558">Defines a specific type of event, due to notification sending.</p>   |
|   | <p data-bbox="521 642 1328 705">Defines a decision point in a business process. If a condition is true, then processing continues one way, if not, then another.</p>   |
|   | <p data-bbox="521 831 1328 926">Defines a decision point in a business process, on which more than one path may be taken. It is also used to indicate dependent activities that need to be done in order to continue with the process.</p> |

### 3.1.5.1 Submission of tax returns form [Tax filing]

The objective of the Submission of tax returns form [Tax filing] process is to present the tax returns form to the Department of the Treasury with the details of the taxpayer's income, expenses, exemptions, deductions and calculation of taxes, which are chargeable to the taxpayer and to confirm that the tax returns form contains all the required information.

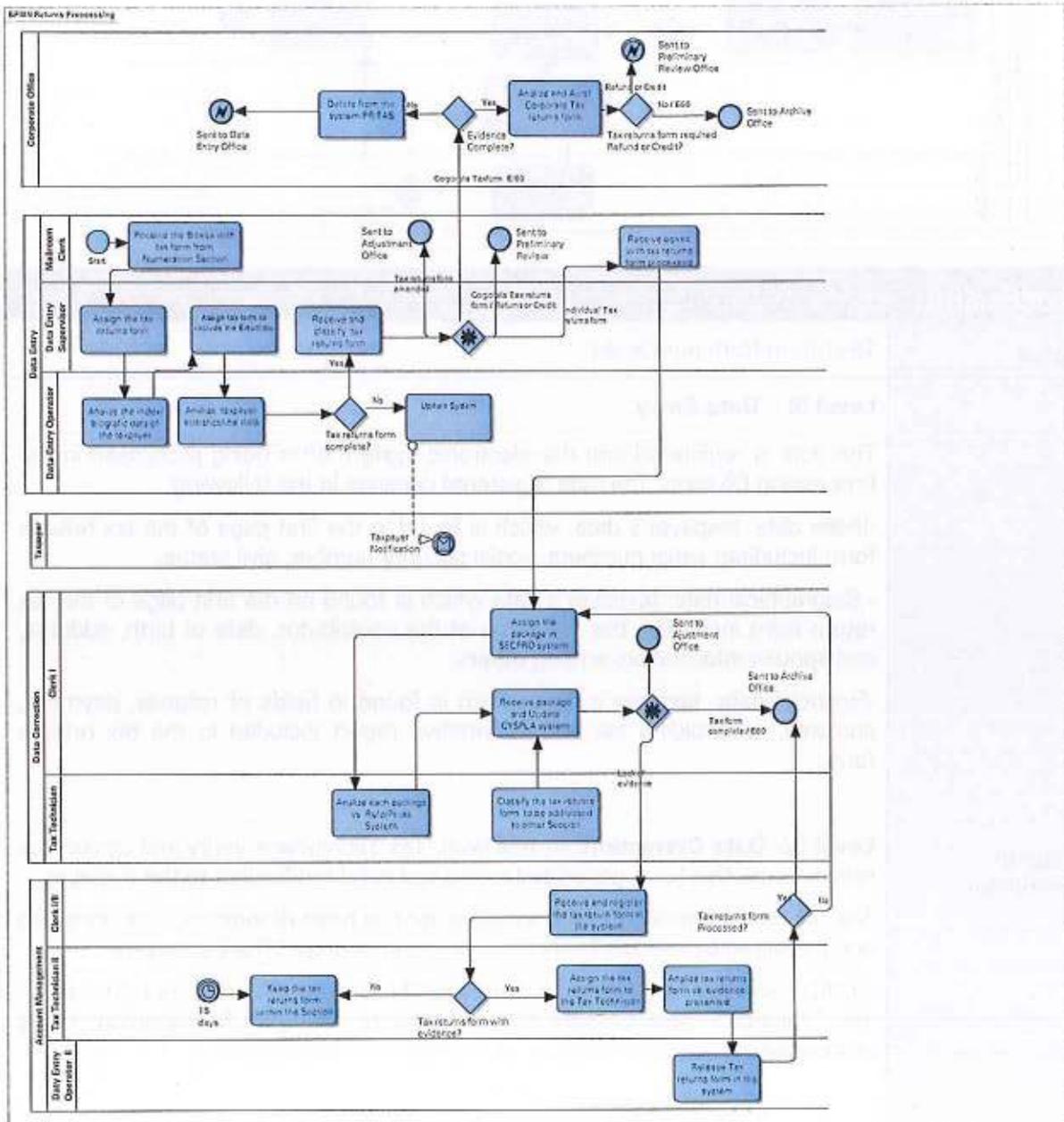


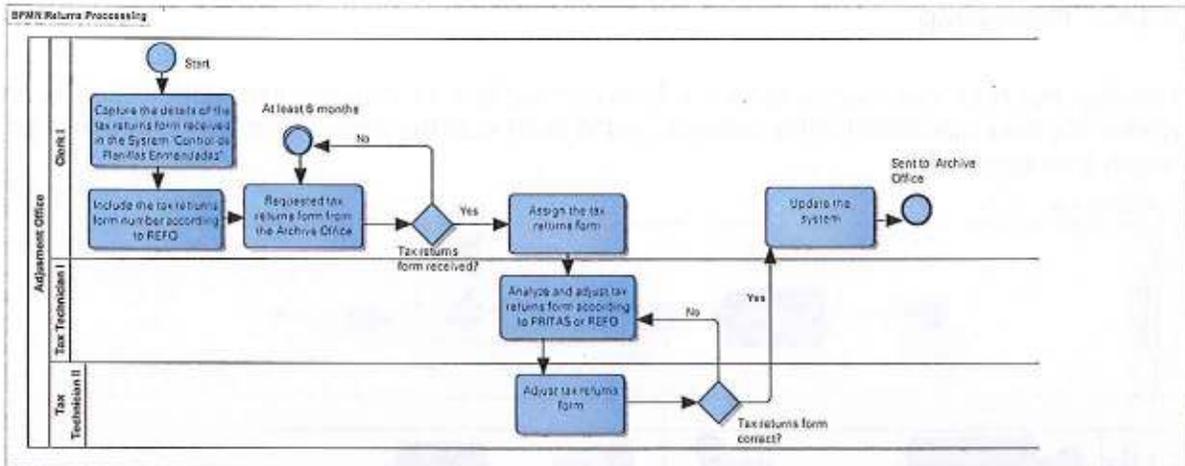
## Submission of tax returns form [Tax filing]

|                            |  |
|----------------------------|--|
| <b>Inputs</b>              | <p>Individual Tax return forms<br/>Corporate Tax return forms<br/>Extension Forms</p>  |
| <b>Diagram description</b> | <p>The process begins with the tax return form's submission to the Department of the Treasury for processing.</p> <p>The submission sub-process includes the reception, classification and numbering of the tax returns form and review of the information and evidence submitted by the taxpayer.</p> <p>The different types of tax return forms include :</p> <ul style="list-style-type: none"> <li>■ Amended tax returns form</li> <li>■ Tax returns form with payment (check or voucher)</li> <li>■ Extensions Forms</li> <li>■ Tax returns form of previous years.</li> </ul> <p>Processing of the tax return forms requires different operational and review levels through the process.</p> <p>The Submission process involve 2 different levels:</p> <p><b>Level I - Preliminary Review</b></p> <p>The Tax Technician reviews manually the individual tax return form. Reviews the information and the evidence submitted by the taxpayer. If it is necessary a "reparo" form can be included in the documentation, as a signal that the tax return form lacks evidence. This form also indicates objections and corrections in the tax return form, using a blue color pencil. At the end of this preliminary review, the Tax Technician classifies the tax return form.</p> <p><b>Level II - Numbering</b></p> <p>Each tax returns form must have a serial number that will be used to trace the document within the different units.</p> |
| <b>Outputs</b>             | <p>Individual Tax return form processed<br/>Corporate Tax return form processed<br/>Extension form processed<br/>"Reparo" form completed, if necessary</p>   |

### 3.1.5.2 Processing

The objective of processing the tax return form is to register the return in the system, analyze, and review the data submitted by the taxpayer, and to verify if all the documentation supports the tax return form submitted.





| Processing                 |  |
|----------------------------|--|
| <b>Inputs</b>              | Tax return form numbered   |
| <b>Diagram description</b> | <p><b>Level III - Data Entry</b></p> <p>The data is registered into the electronic system after being processed in the Processing Division. The data registered consists in the following:</p> <ul style="list-style-type: none"> <li>-Index data: taxpayer's data, which is found in the first page of the tax returns form including: serial numbers, social security number, civil status.</li> <li>- Biographical data: taxpayer's data which is found on the first page of the tax return form including: the full name of the contributor, date of birth, address, and spouse information, among others.</li> <li>-Financial data: taxpayer's data which is found in fields of refunds, payment, annexes, withholding tax and informative report included in the tax returns form.</li> </ul> <p><b>Level IV- Data Correction:</b> At this level, Tax Technicians verify and correct tax return forms that have generated errors and send notification to the taxpayer.</p> <p>The tax return forms on which a math error has been determined, are reviewed and corrected by the Tax Technician, better known as "The Correctors."</p> <p>At this level the Tax Technician can identify "reparos" in the tax return form. The "reparos" must be sent to the Office of Accounts Management to be processed.</p> <p><b>Level V - Corporate Unit:</b> This level is reached only if the corporate tax return form generated an error and could not continue within the course of the regular process.</p> <p><b>Level VI - Adjustment Office:</b> If the taxpayer has changed any component within the tax return form such as income, exemptions, deductions or credits, this may result in a refund or additional tax due, and should be notated in order</p> |

## Processing

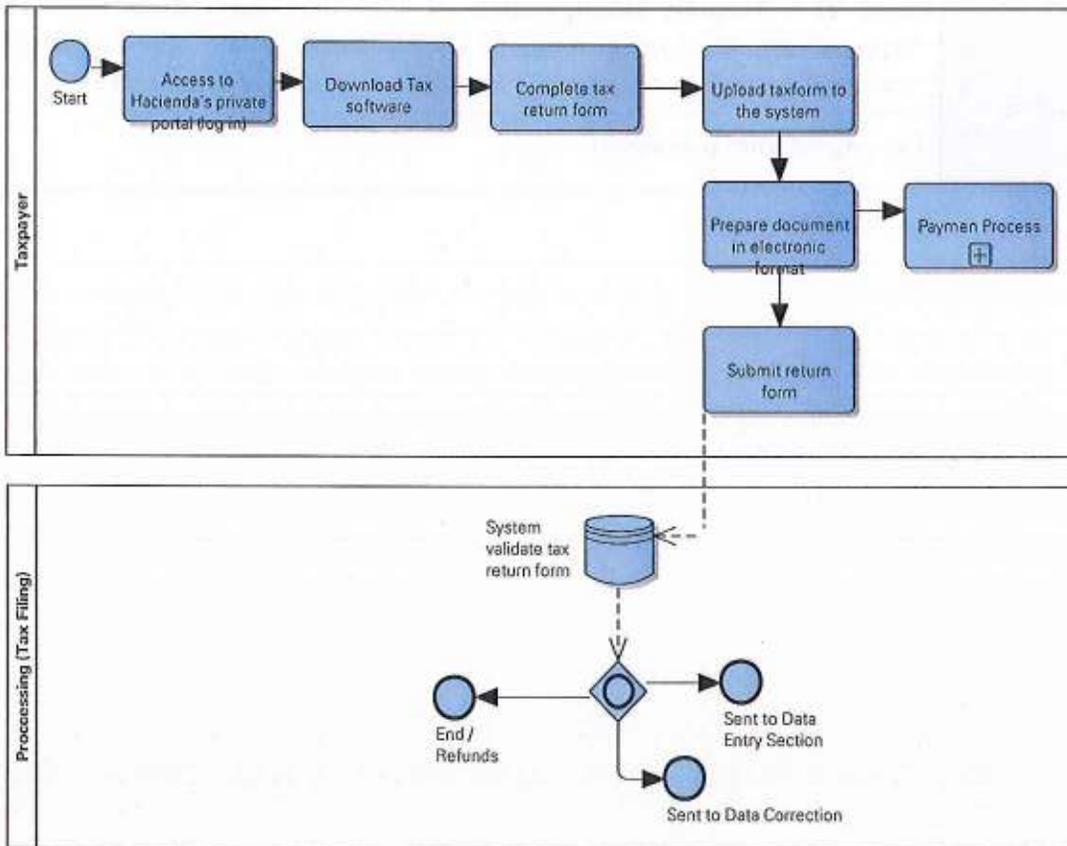
to be handled directly by the Adjustment Office for modification and processing.

**Level VI - Account Management:** At this level, tax returns forms with "reparos" are received in order to be processed. There are nine kinds of "reparos" related to omission of information in the tax returns form.

## Outputs

Tax returns form processed

### 3.1.5.2.1 Electronic Filing



## Electronic Filing (e-filing)

|                            |   |
|----------------------------|---|
| <b>Inputs</b>              | Electronic Tax return form  |
| <b>Diagram description</b> | <p>E-filing process diagram reflects the steps that must be followed by taxpayers to submit their tax return form electronically:</p> <p>E-filing process allows taxpayers to complete, sign and file their tax return form electronically. The process allows taxpayers or Tax Return Specialist to download software programs used for e-filing and payment through <i>Payments Online</i> ("Colecturía Virtual") in case they have any tax balance due.</p> <p>When an individual taxpayer or Tax Return Specialist initializes the electronic filing process for a return, the system will validate certain information; if the validation fails, the system will not return a code until it the correct information is registered.</p> <p>Once the tax return form is electronically submitted, the system (FileNet application) will produce images of the tax return forms, and according to the case, the system assigns the tax return form to the responsible area that must process it (e.g.: Data Entry, Perfection).</p> <p>The Data Entry Section updates the tax return forms of those who have some exception, including errors of direction, and those tax return forms with biographical information (name of the taxpayer and / or spouse) that do not match with the information registered in the systems. If the tax return form does not have any error the process will finish normally.</p> <p>In case of mathematical error, the Perfection Data Section manages it and the passes the form to other areas with status Not Finished in REFO System. In this case a notification letter will be sent to the taxpayer and the Perfection Data Section will wait 60 days for the taxpayer's response.</p> <p>Note:</p> <ol style="list-style-type: none"><li>1. An amended tax return form cannot be submitted electronically</li><li>2. The corrections to the tax return form are made through FileNet without printing. The comments and annotations are made on the image.</li></ol> |
| <b>Outputs</b>             | Electronic Tax return form processed<br>Notification to taxpayer  |

### 3.1.5.3 Tax Enforcement

#### 3.1.5.3.1 Fiscal Inspection – Sales and Use Tax

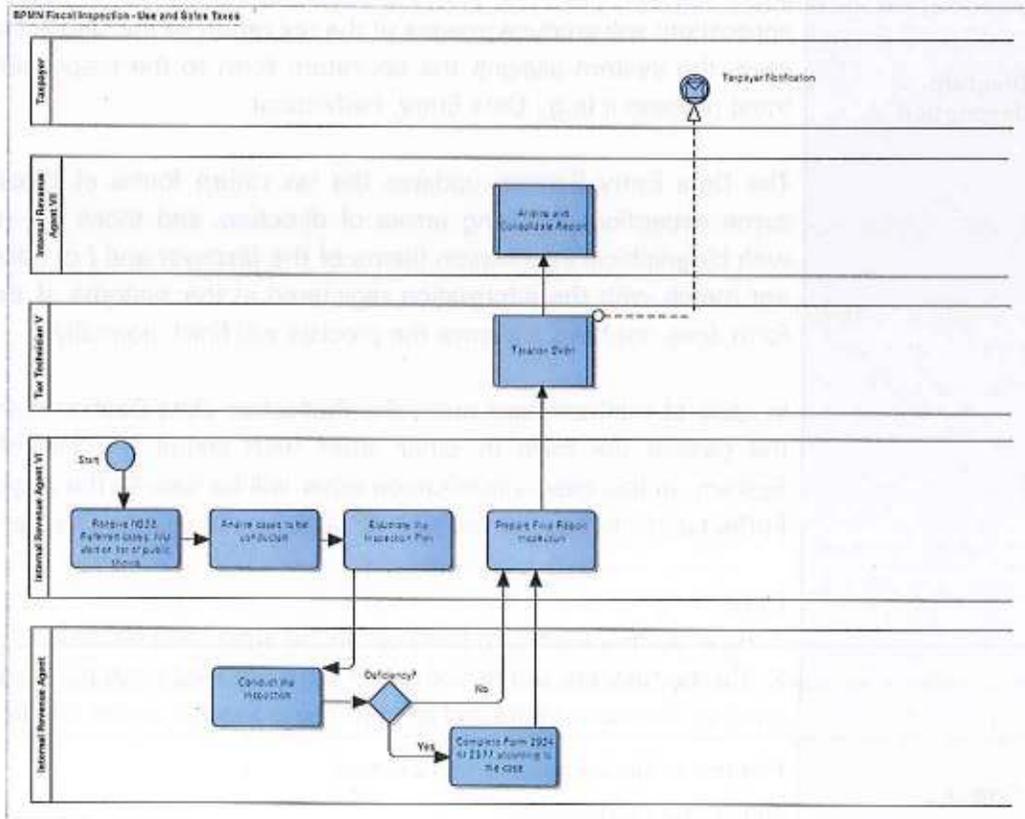
The objective of fiscal inspections is to examine, identify and report, fairly and impartially, tax evasion, under-reporting, under-assessment and loss of revenue that can be attributed to negligence, inefficiency, omissions and commissions.

The Fiscal inspection process covers initiatives that are carried out to ensure correct, judicious and legal application of rules and procedures and also make sure that taxpayers comply with the Internal Revenue Code, related to their fiscal duties.

The inspections are conducted for incoming goods through the docks, as well as commercial property (Sales and Use Tax). There are two types of inspection:

- Regular Inspection
- Special Inspection

Inspections can be the result of a series of reports that are extracted from the different systems, IVU alert, entertainment events to be held and complaints about IVU Loto and cases referred from the different Bureaus within the Internal Revenue Area.

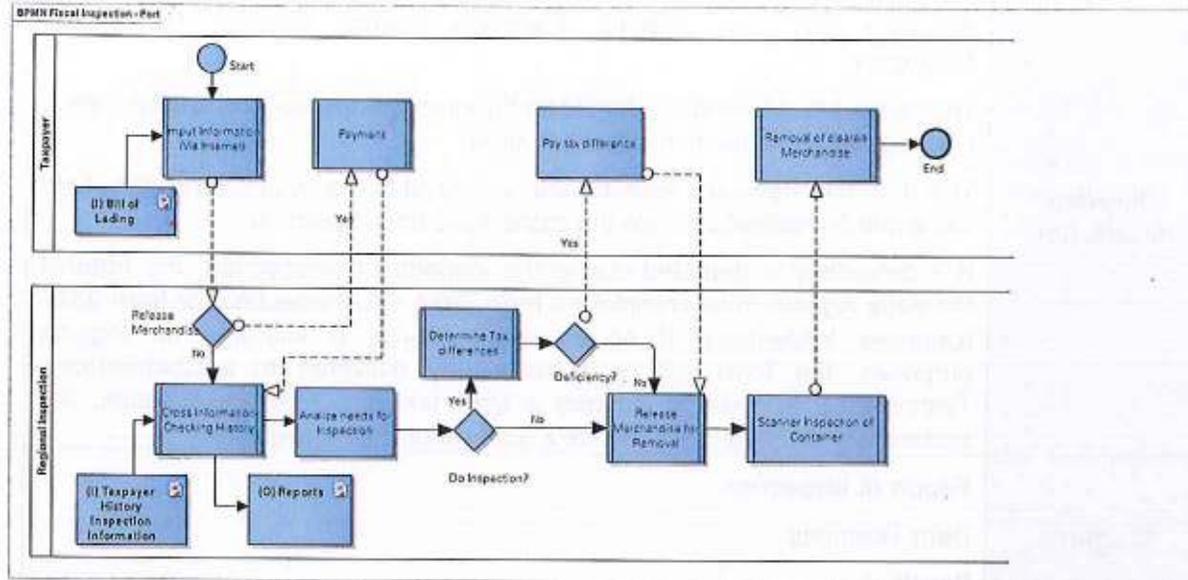


## Fiscal Inspection – Use and Sales Tax

|                            |  |
|----------------------------|--|
| <b>Inputs</b>              | IVU alert, complaints, PRITAS / N222 Report, special cases   |
| <b>Diagram description</b> | <p>Different inspections are conducted in the following districts: Humacao, Aguadilla, San Juan, Arecibo, Bayamón, Caguas, Carolina, Ponce and Mayaguez.</p> <p>The cases are received by the District's Interim Supervisor, who plans each investigation or inspection to be executed.</p> <p>The Internal Revenue Agents are responsible for conducting the field inspection/investigation once the cases have been assigned</p> <p>If a deficiency is detected during the inspection/investigation, the Internal Revenue Agents must complete a form 2924 (IVU Inspection) or form 2327 (Licenses Inspection). If no electronic device is available for logging purposes, the form will be subsequently delivered to a Contributions Technician V in order to process a debt taxation. After the taxation, the system will immediately generate a notification to the taxpayer.</p> |
| <b>Outputs</b>             | <p>Report of Inspection</p> <p>Debt Taxations</p> <p>Penalties</p>   |

### 3.1.5.3.2 Fiscal Inspection – Ports

The objective of a port inspection is to examine, identify and report fairly and impartially, any tax evasions or under-reporting due to negligence, inefficiency and omissions of incoming goods.



| Fiscal Inspection – Port   |   |
|----------------------------|---|
| <b>Inputs</b>              | Bill of lading  |
| <b>Diagram description</b> | <p>Internal Revenue Agent validates the merchandise to be transported and imported to Puerto Rico in the system. At the same time, the taxpayer must notify the amount of goods that will be imported, and pay the respective tax.</p> <p>The Internal Revenue Agent gathers information and uses their expertise to determine whether the merchandise should be released at the time of the arrival to the pier. If the merchandise was not released in the first instance, the Internal Revenue Agent should make a crossing of information, Examining Records and analyze the needs to inspect the merchandise. If the merchandise is not selected for inspection, it is released to the taxpayer to be transported to its final destination. If the merchandise is selected for inspection and found to have deficiencies, then the taxpayer is notified and can make arrangements to pay the penalty fees in order to have the merchandise released.</p> |
| <b>Outputs</b>             | <p>Proposed penalty, if applicable</p> <p>Release Merchandise form (SC 2015)</p>  |



## Fiscal Audits

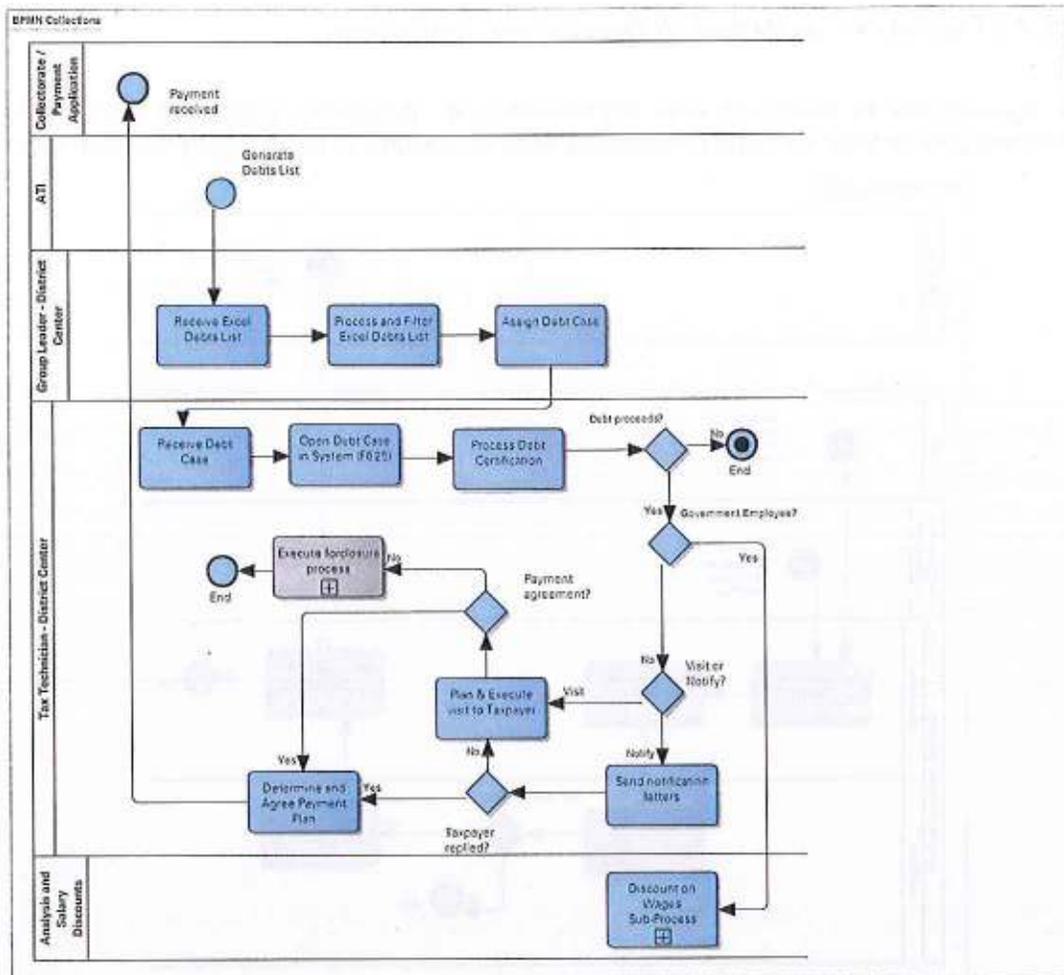
|                            |  |
|----------------------------|--|
| <b>Inputs</b>              | <ul style="list-style-type: none"> <li>■ Cases selected</li> <li>■ Referred Cases</li> <li>■ Complaints</li> </ul>   |
| <b>Diagram description</b> | <p>The Fiscal Audits are conducted in the following districts: San Juan Metro Area, Arecibo, Bayamón, Caguas, Humacao, Mayaguez and Ponce.</p> <p>The cases are selected according to the following criteria: highest risk, taxpayer non-compliance or specific projects.</p> <p>The cases are included in the SAF system (Fiscal Audits System), in order to be assigned to the different districts where the audits or investigations will be conducted. The tax returns form must be requested by the Archive Office prior to assignment.</p> <p>Each district has a Supervisor who oversees operations and is responsible for the assignment of cases to the different auditors.</p> <p>Once the cases have been assigned, the auditor conducts the fiscal audit and requests all necessary information specific to the taxpayer. Depending on the results of the field inspection, two forms must be completed. If the taxpayer has agrees with the deficiency, the auditor must complete the form "Agreed Income Tax Cases." If the taxpayer disagrees with the result of the audit, a form "Disagreed Income Tax Cases" must be completed and sent to the Chief of Review of investigated Cases, who is in charge of reviewing and taxing, if necessary, using PRITAS system.</p> |
| <b>Outputs</b>             | <p>Agreed Income Tax Cases form</p> <p>Disagreed Income Tax Cases form</p> <p>Audit Report</p>   |

### 3.1.5.4 Collection Process

#### 3.1.5.4.1 Collection Management and Seizures

This sub-process is designed and implemented for supporting the collection of taxes, in accordance to Fiscal Code dispositions, considering different collection methods in case of debts and tax evasion.

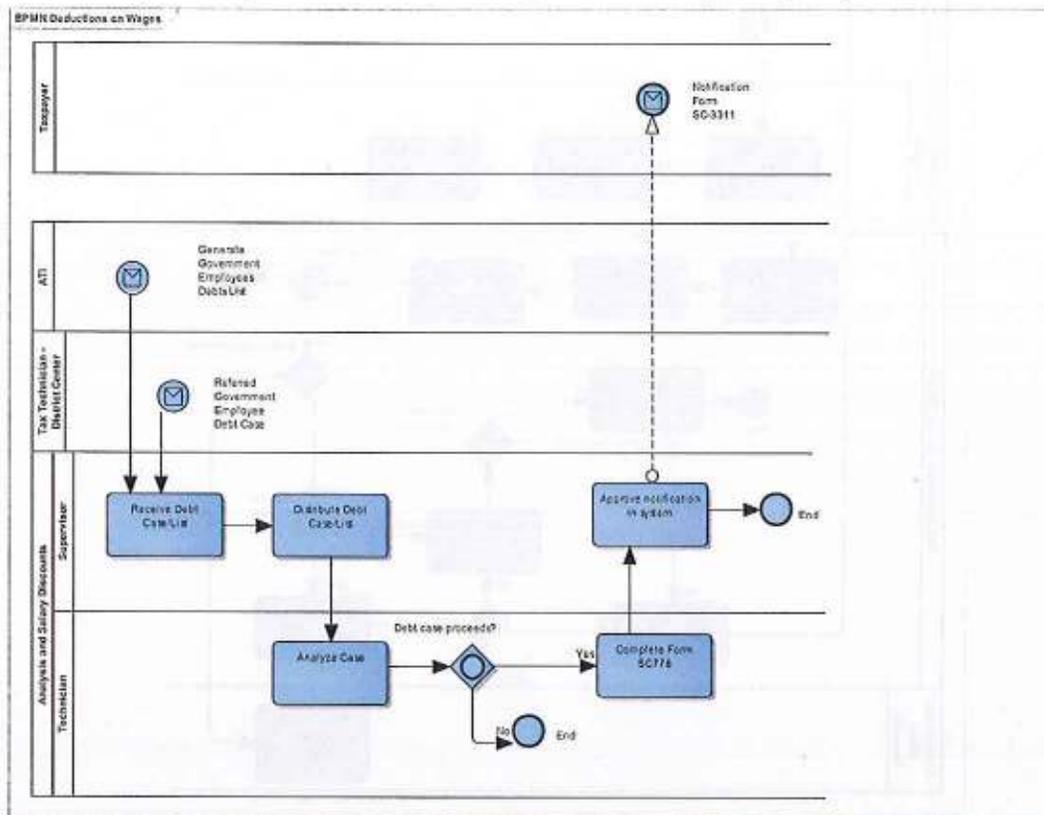
This sub-process consists on the receiving, assigning and processing of debt lists by Contribution technicians, who analyze, manage and execute debt collection due diligence.



| Collections – Collection Management and Seizures |   |
|--|---|
| <b>Inputs</b>                                    | In order to initialize any collection effort, it is necessary to receive a list of debts which is generated and sent from the Technology Area.  |
| <b>Diagram description</b>                       | <p>Lists of debts need to be received and checked on a weekly basis, by the Group Leader, in order to distribute cases within the pool of technicians. The Group Leader uses MS Excel to filter debt lists.</p> <p>Technicians receive their assigned list of debt cases and process a debt certification for each possible taxpayer debt case in order to confirm if it is necessary to proceed with Collection due diligence.</p> <p>Collection due diligence requires the submission of three MS Word written notification letters and visits to taxpayers in arrears, with the aim of agreeing a Payment Plan.</p> <p>If a Payment Plan cannot be agreed with the taxpayer, Compliance team can determine to execute a seizure procedure in order to cancel a debt.</p> |
| <b>Outputs</b>                                   | <p>Notification letters</p> <p>Payment Plan agreed</p>  |

### 3.1.5.4.2 Deductions on Wages of Government Employees

This sub-process is designed and implemented to guarantee payments from government employees should they owe any outstanding debt obligations to the Treasury Department.

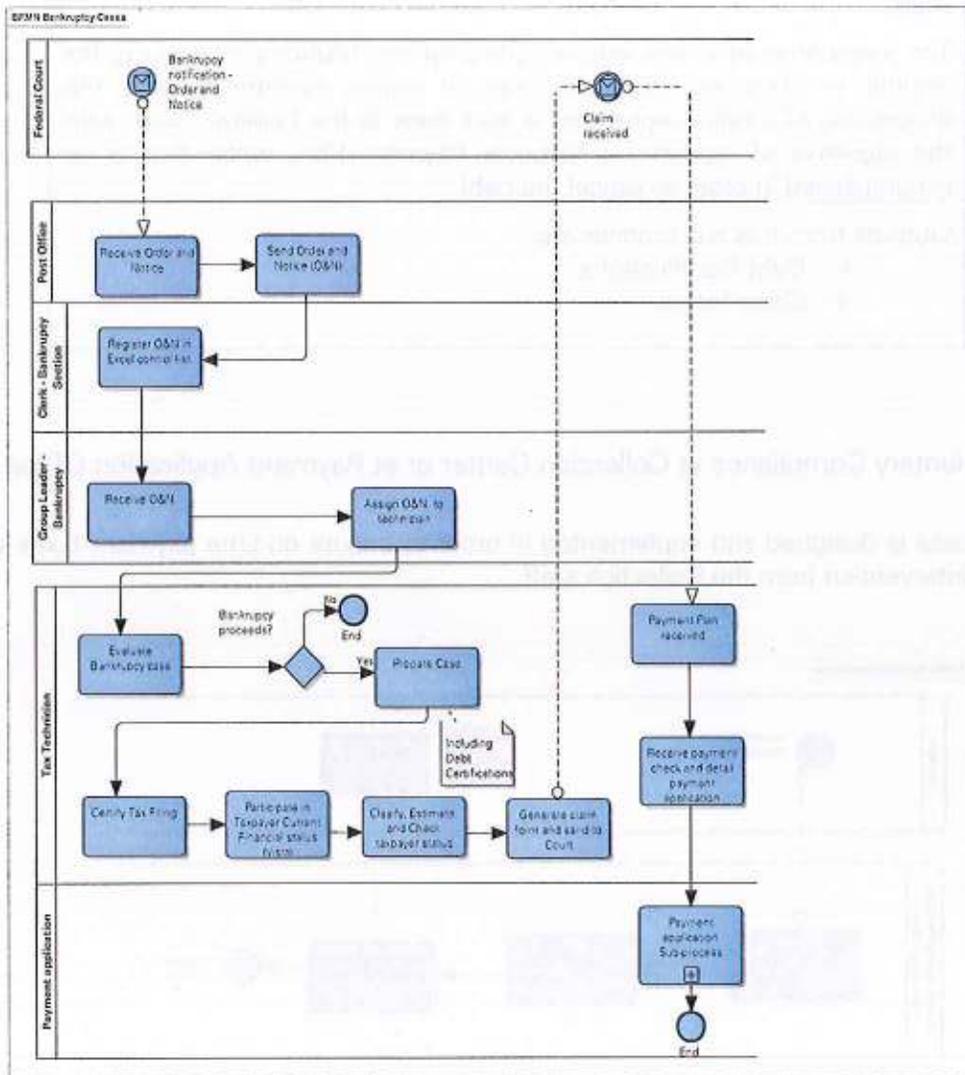


#### Collections – Deductions on Wages of Government Employees

|                            |   |
|----------------------------|---|
| <b>Inputs</b>              | <p>In order to process and start applying a deduction on an employee's wage, it is necessary for the team in charge to receive any of the following inputs or triggers:</p> <ul style="list-style-type: none"> <li>■ Debt list generated by Technology Area</li> <li>■ Referred case from the Compliance Section</li> </ul>   |
| <b>Diagram description</b> | <p>This sub-process supports a collection method which is focused on applying deductions from a Government employee's wages, in order to cancel any tax arrears.</p> <p>A Supervisor or Group Leader will only approve a deduction on wages if the request form is first received and analyzed by a Technician.</p> <p>The government employee receives a notification letter (form SC-3311), which is prepared by the section's Clerk.</p> |
| <b>Outputs</b>             | <p>Form SC776 reviewed and approved<br/>Form SC-3311 reviewed and approved</p>  |

### 3.1.5.4.3 Bankruptcy Cases

This sub-process is designed and implemented for supporting the adequate collection of taxes, in accordance to Fiscal Code dispositions, considering different collection methods in case of debts and tax evasion. In this scenario, Bankruptcy cases are processed to guarantee debt collection, taking advantage of the mechanisms provided through the Federal Court.

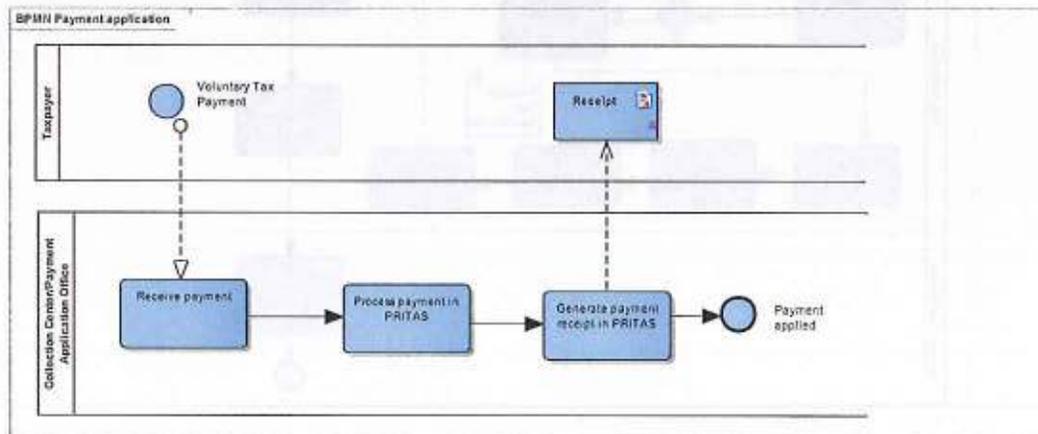


## Collections - Bankruptcy Cases

|                            |  |
|----------------------------|--|
| <b>Inputs</b>              | The Bankruptcy Section must receive an Order and Notice form from the Federal Court in order to start processing a bankruptcy case   |
| <b>Diagram description</b> | <p>This sub-process is triggered by a notification letter (Order and Notice) that is sent by the Federal Court, to the Bankruptcy Section, where Technicians are assigned by a Group Leader, to evaluate and prepare cases.</p> <p>The preparation of a case may include debt certifications processing, tax returns certifications, taxpayer financial status monitoring, and the processing of a claim report that is sent back to the Federal Court, with the objective of receiving a Taxpayer Payment Plan, which has to be accomplished in order to cancel the debt.</p> |
| <b>Outputs</b>             | <p>Outputs from this sub-process are:</p> <ul style="list-style-type: none"> <li>■ Debt Certifications</li> <li>■ Claim forms</li> </ul>   |

### 3.1.5.4.4 Voluntary Compliance at Collection Center or at Payment Application Office

This sub-process is designed and implemented in order to ensure on-time payment taxes with a minimum of intervention from the Collection staff.

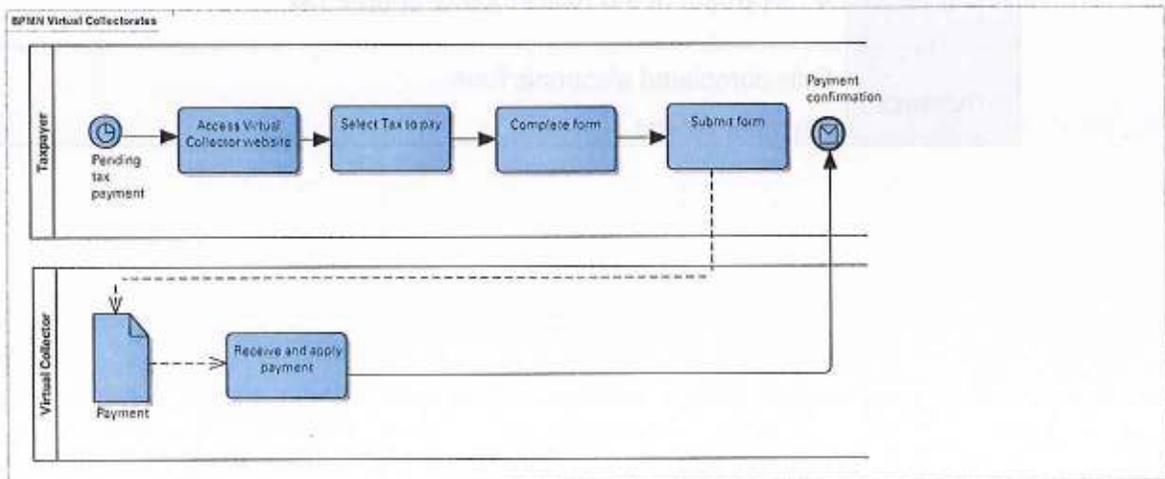


### Collections- Voluntary Compliance – Collection Center / Payment Application Office.

|                            |  |
|----------------------------|--|
| <b>Inputs</b>              | This sub-process requires taxpayer or practitioner instruction in order to start processing a payment transaction in accordance to the debt to be cancelled.   |
| <b>Diagram description</b> | The sub-process begins with the receipt of an instruction of payment from a taxpayer or representative at the Collection Center or Payment Application Office.<br><br>At this moment, the collections auxiliary receives the payment, validates concept of payment and processes it in PRITAS. At the end, this process must generate a payment receipt which is delivered to the taxpayer and archived for record keeping and further consults. |
| <b>Outputs</b>             | Payment receipt.   |

#### 3.1.5.4.5 Virtual Collections

This sub-process is designed and implemented in order to ensure on-time payment of distinct types of taxes, considering a self-service scheme, taking advantage of the Treasury Department's website.



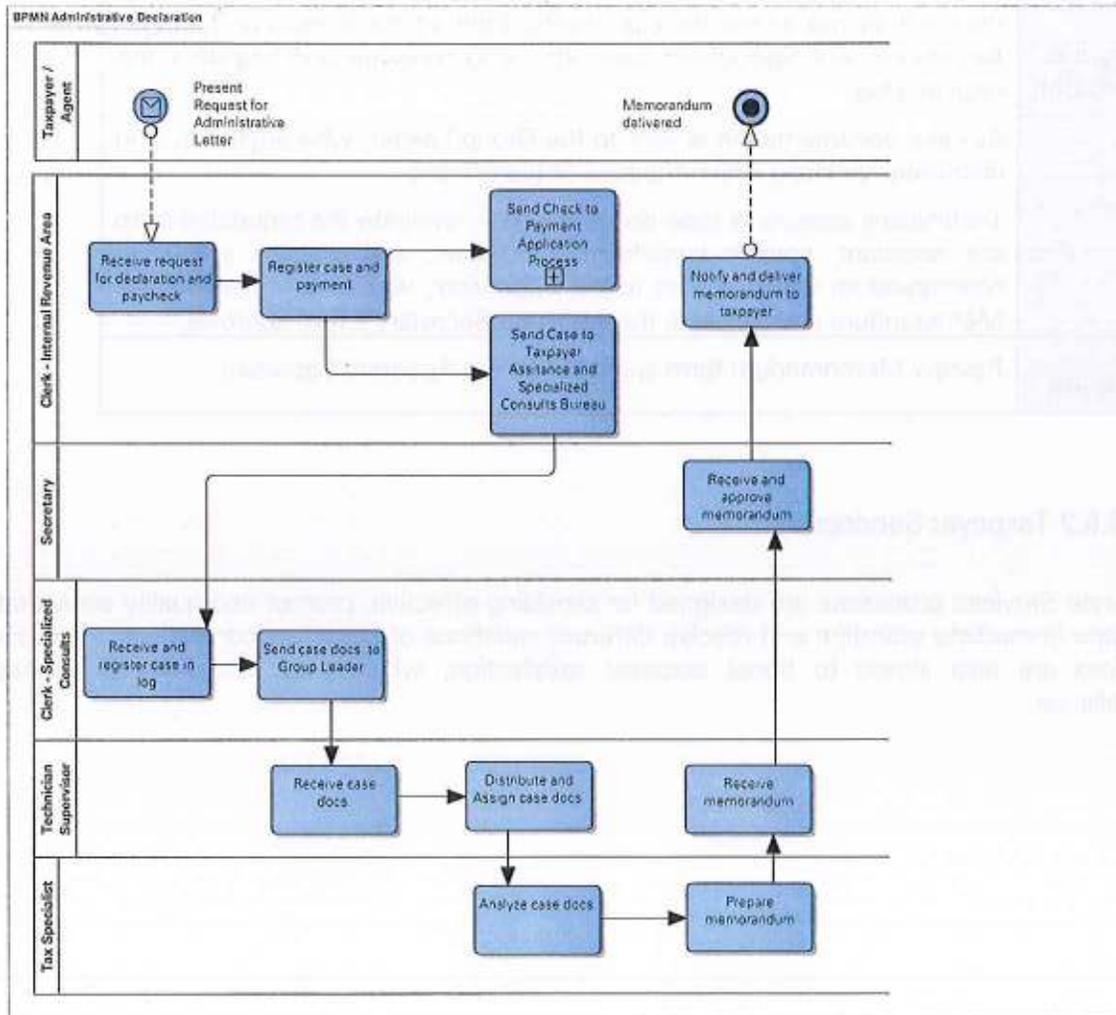
## Collections – Voluntary Compliance – Virtual Collectors

|                            |   |
|----------------------------|---|
| <b>Inputs</b>              | A taxpayer must first access his private portal to fully complete and submit the electronic form provided in order to process any electronic payment through the Treasury Department's website,   |
| <b>Diagram description</b> | <p>This sub-process begins with the taxpayer's log-in to the Virtual Collector website provided by the Treasury Department. Taxpayer can select the type of payment and complete an electronic form, in order to submit it and receive a payment confirmation. Payment options are:</p> <ul style="list-style-type: none"><li>■ Payment of the Second Installment - Individual Income Tax Return</li><li>■ Payment of the Estimated Tax</li><li>■ Payment of the Withholding of Tax at Source from Wages</li><li>■ Estimated Tax Payment Section 1123(f)</li><li>■ Deposit Coupon of Tax Withheld at Source - Nonresident 480.31</li><li>■ Deposit Coupon of Tax Withheld on Royalties 480.32</li><li>■ Payment of the Withholding of Tax at Source from Services Rendered (7%)</li><li>■ Automobile Importers Excise Tax Declarations</li><li>■ Carriers and Custom Brokers Excise Tax Declaration</li><li>■ Tax Alcoholic Beverage Declaration</li><li>■ Payment of the Real Property Special Tax</li></ul> |
| <b>Outputs</b>             | Fully completed electronic form<br>Payment receipt.   |

### 3.1.5.5 Taxpayer Assistance Process

#### 3.1.5.5.1 Specialized Consults

This sub-process has been designed and implemented in order to support consults and requests for recommendations from taxpayers, government offices or other entities who manage complex contributory schemes. Also, specialized consults are presented in order to obtain correct interpretation of the Fiscal Code.

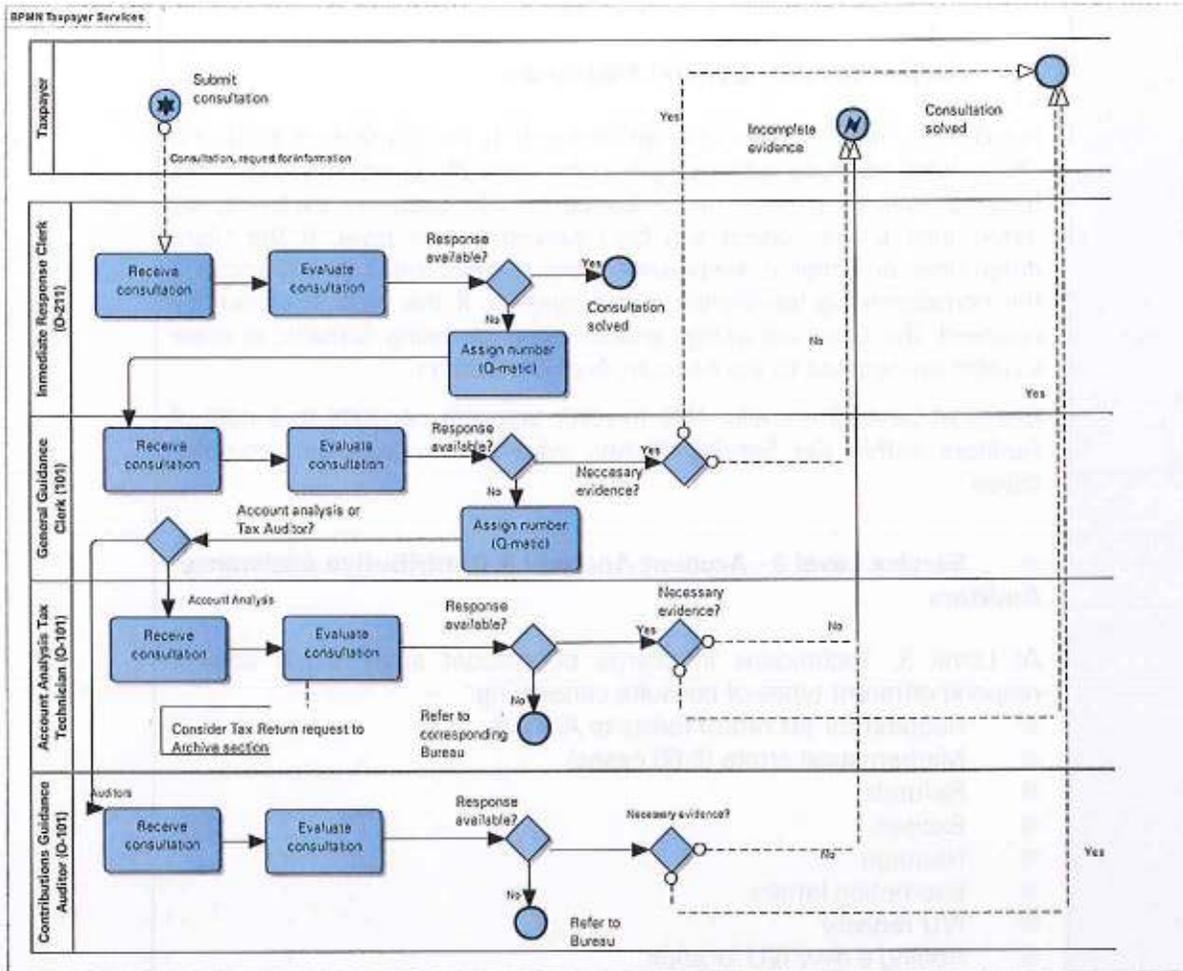


## Taxpayer Assistance- Specialized Consults

|                            |  |
|----------------------------|--|
| <b>Inputs</b>              | . A taxpayer or representative must submit request form No. 5901 in order to start processing any special consult request.   |
| <b>Diagram description</b> | <p>This sub-process begins with the reception of a request (form No. 5901) from a taxpayer, representative, or government agency. The taxpayer must pay for the special consult by making a request with an accompanying check for the services to be rendered. The Clerk at the Internal Revenue Area (IRA) is responsible for registering the case, and sending the check to the Payment Application Office. In the same way, the Clerk at IRA sends the case to the Clerk at the Bureau of Taxpayer Assistance and Specialized Consults, who receives and registers the case in a log.</p> <p>All case documentation is sent to the Group Leader, who organizes, and distribute workload within the pool of technicians.</p> <p>Technicians receive all case documentation, evaluate the request(s) from the applicant, consult knowledge databases, and prepare a Review Memorandum which is sent to the Supervisor, who in turn reviews the Memorandum and requests the Assistant Secretary's final approval.</p> |
| <b>Outputs</b>             | Review Memorandum form approved by the Assistant Secretary.  |

### 3.1.5.5.2 Taxpayer Services

Taxpayer Services processes are designed for providing effective, prompt and quality services to facilitate immediate attention and resolve different variations of taxpayer complaints. . Taxpayer services are also aimed to boost taxpayer satisfaction, which may also help to increase compliance.



| Taxpayer Assistance - Taxpayer Services |  |
|---|--|
| <b>Inputs</b>                           | Triggers such as requests or consults may be presented through different channels, such as the call center, mail and in-person requests at service centers.  |
| <b>Diagram description</b>              | <p>Service centers are located in different districts and are responsible for attending to taxpayer claims and performing transactions.</p> <p>The Bureau has eight (8) service centers located in: San Juan (Building Ramirez and Mercantil Plaza Mayor), Arecibo, Bayamon, Mayagüez, Aguadilla, Ponce and Caguas.</p> <p>Taxpayer services within each Service Center are organized in the following levels:</p> <ul style="list-style-type: none"> <li>■ <b>Service Level 1 - Immediate response</b></li> </ul> <p>At this level, taxpayers present their consults to the Clerk in charge of the information workstation in the main lobby. If the consult cannot be reviewed at this level, the Officer uses Q-matic to assign a number, which will be used to call for service.</p> |

■ **Service Level 2 - General Assistance**

If a consult has not been resolved at Level 1, the taxpayer is sent to a Clerk, who receives and evaluates the consult. Once the Clerk has finished evaluating the consult, based on all necessary evidence, he determines if the consult can be resolved at this level. If the Clerk determines an action or response for this request, he is able to process the corresponding transaction in the system. If the consult cannot be resolved, the Clerk will assign another number, using Q-matic, in order to refer the request to the Account Analysis section.

Clerks at Level 2 are also able to refer taxpayer consults to a pool of Auditors within the Service Center, who are focused on complex cases.

■ **Service Level 3 - Account Analysis & Contributive Assistance Auditors**

At Level 3, Technicians in charge of account analysis are able to respond different types of consults concerning:

- Request for tax return forms to Archive
- Mathematical errors (E-60 cases)
- Refunds
- Excises
- Heritage
- Exemption letters
- IVU registry
- Adding a new IVU location
- Commercial registration certificate

, The case will be referred to the correspondent Bureau if the Tax Technician determines that the case should be reviewed or analyzed at the Bureau level

**Outputs**

Response to Taxpayers according to the type of service provided.

## 3.2 Organization and Governance

The purpose of this section is to describe the current organizational structure of the Internal Revenue Area, contrasting it with the leading and common practices. Additionally, this section provides an insight in the organization's staff numbers per Bureau and how they are hierarchically structured. This section also describes the current levels of accountability, responsibility and the span of control among the current structure.

It is of great importance to have a clear knowledge about the current organizational structure in order to know how the Internal Revenue Area is organized and how their staff is divided. This information is valuable because it provides the necessary input to identify the impact that a tax reform could have on the organizational structure and how it can be modified to absorb the future changes and improvements that could be implemented.

### 3.2.1 Organization Structure

#### Current Organizational Structure Overview

The Internal Revenue Area is currently divided into six Bureaus:

- **Collections Bureau:** Responsible for collecting taxes which are due, assessed and delinquent using enforcement measures.
- **Consumption Tax Bureau:** In charge of the inspection, audit and compliance of the sales and use tax (IVU) and excise taxes.
- **Fiscal Audits Bureau:** Monitors compliance by selecting filed tax returns to audit and verify the income, expenses and supporting information provided by the taxpayer and making recommendations of cases that require further collection.
- **Processing Bureau:** In charge of the registration, filing, processing and archiving of taxpayer declarations and forms.
- **Taxpayer Assistance & Specialized Consults Bureau:** Responsible for analyzing and processing taxpayer objections and appeals, including judicial reviews and hearings.
- **Taxpayer Services Bureau:** Provides information to the taxpayer to help them comply with their necessary requirements and obligations.

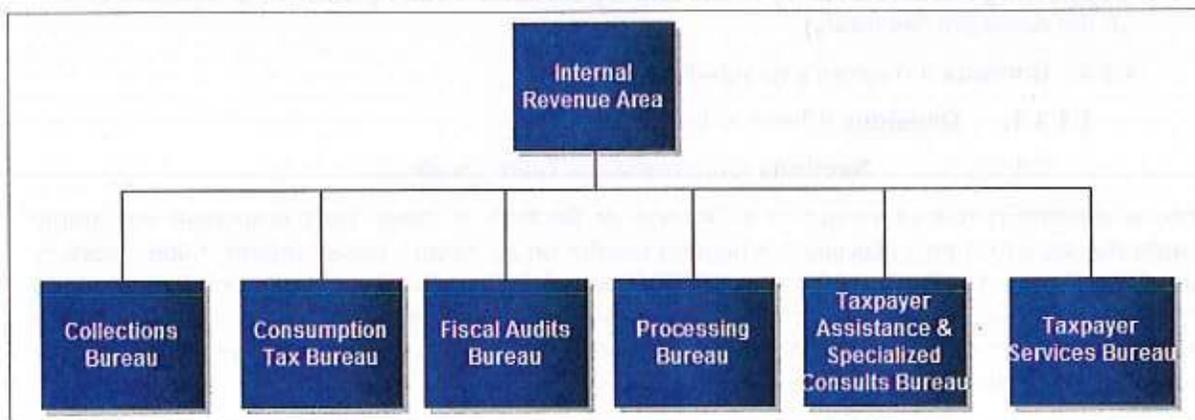


Figure 7 Internal Revenue Area Organizational Chart

According to the United States Agency for International Development (USAID), the national tax revenues and tax administrations around the world have their staff and other resources normally structured on four main traditional types of organizational structures:

- **Type of tax:** Departments or Bureaus are organized by the type of tax such as excise tax, income tax, VAT, Sales and use tax, etc.
- **Functions Performed:** Departments or Bureaus are responsible for a specific function or service like audits, collections, taxpayer services, etc.
- **Type of taxpayer/client:** Departments are responsible for large enterprises, small/medium enterprises, salary earners, etc.
- **Combination:** Any mixture of responsibilities of two or more of the organizational structures above.

"Type of Tax" was the most commonly adopted form of organizational structure for many years but has recently been abandoned due to concerns surrounding duplication of efforts and fragmentation of resources. Currently, tax administrators are utilizing the Functional Organizational Structure, grouping together activities that require similar skills or specialties. The structure by "Type of Taxpayer" tends to be used by countries that have most of their income provided by a specific group of large taxpayers (usually this group accounts for 10 to 15 percent of their total tax revenue).

Comparing the current organizational structure to the leading practices mentioned above, it can be concluded that the Internal Revenue Area is currently using a combination of two types of organizational structures. Of its current bureaus, five of them are organized by the type of function performed but one of them, Consumption Tax, is structured by the type of tax that it manages.

## Current Staff Structure Overview

This section describes the current hierarchical structure of the Internal Revenue Bureaus, highlighting the different divisions and sections, total number of staff and the leadership position they report to. The current structure of the Department of the Treasury can be described as follows, where the structures of the Supporting and Advisory areas do not necessarily follow the Bureau/Division/Section structure:

### 1. Department of the Treasury (Secretary and Under-Secretary)

#### 1.1. Supporting Areas, Advisory Areas and Operational Areas (Assistant Secretaries and Under Assistant Secretary)

##### 1.1.1. Bureaus (Directors and Sub-directors)

##### 1.1.1.1. Divisions (Chiefs of Divisions)

##### 1.1.1.1.1. Sections (Supervisors or Team Leaders)

When a leadership role is vacant in a Division or Section, a lower level employee voluntarily accepts the appointment to Division or Section Leader on an interim basis. Interim Supervisors or Team Leaders can distribute workload, coordinate operations and recommend procedure changes but they cannot take disciplinary actions against their subordinates, according to the rules of The International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) and the Union General de Trabajadores (UGT).

The following tables describe the structure of the different Bureaus, indicating the current staffing levels and their current leadership situation. The current organizational chart is also included.

### 3.2.1.1 Collections Bureau

| Unit                                       | Total Staff | Current Leadership Situation   |
|--|-------------|--|
| Director's Office                          | 8           | Director in place, there is currently no Sub-Director assigned   |
| Virtual Collections                        | 10          | This office reports directly to the Director's Office, currently the Supervisor position is vacant   |
| Sales and Use Tax Collections              | 4           | This office responds directly to the Director's Office, currently the Supervisor position is vacant  |
| Accounting Division                        | 8           | Chief of Division formally assigned  |
| Preliminary Interventions Section          | 11          | Interim Supervisor assigned  |
| Account Control Section                    | 7           | Supervisor formally assigned   |
| Claims and Refunds Section                 | 10          | Interim Supervisor assigned  |
| Fiscal Reports Division                    | 1           | Interim Chief of Division assigned   |
| Collections Division                       | 3           | Chief of Division formally assigned  |
| Collections Section (7 District Offices)   | 579         | Supervisor formally assigned in Bayamón and Mayagüez<br>Interim Supervisor Assigned in: Arecibo, Caguas, Humacao, Ponce and San Juan.                                  |
| Payment Application Section                | 12          | Supervisor formally assigned   |
| Compliance and Collections Division        | 4           | Chief of Division formally assigned  |
| Call Center                                | 41          | Supervisor formally assigned   |
| Salary Discount and Analysis Section       | 7           | Supervisor formally assigned   |
| Collection Districts (10 District Offices) | 121         | Supervisor formally assigned in: Bayamón, Caguas, Carolina and Mayagüez<br>Interim Supervisor Assigned in: Arecibo, Guaynabo, Humacao, Ponce, San Juan and Rio Piedras |
| Special Procedures Division                | 7           | Chief of Division formally assigned  |
| Auctions Section                           | 0           | Section currently not operating  |
| Bankruptcy Section                         | 14          | Interim Supervisor assigned  |

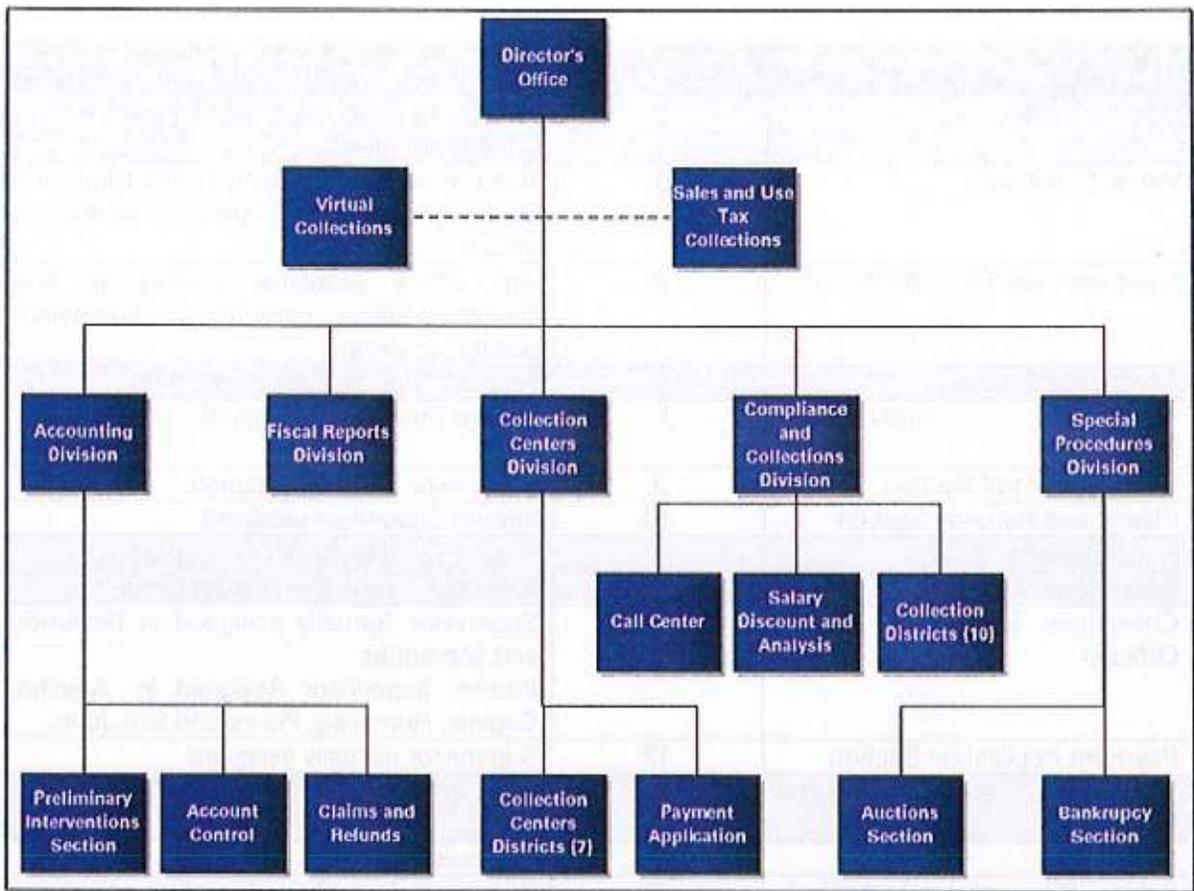


Figure 8 Collections Bureau Organizational Chart

### 3.2.1.2 Consumption Tax Bureau

| Unit  | Total Staff | Current Leadership Situation  |
|---|-------------|---|
| Directors Office                              | 19          | Director and Sub-Director formally assigned.  |
| Business Services Division                    | 4           | No Chief of Division assigned.  |
| Compliance Division                           | 4           | Chief of Division formally assigned.  |
| Taxation Section                              | 63          | 3 Supervisors formally assigned   |
| District Offices (10 districts)               | 270         | San Juan: 3 Supervisors formally assigned<br>Ponce: 2 Supervisors formally assigned<br>Mayaguez: Supervisor formally assigned<br>Bayamon: 2 Supervisors formally assigned<br>Aguadilla: Supervisor formally assigned<br>Caguas: 2 Supervisors formally assigned<br>Arecibo: 2 Supervisors formally assigned<br>Humacao: 2 Supervisors formally assigned |
| Sales and Use Tax (SUT) Intelligence Division | 2           | No Chief of Division assigned.  |
| SUT Technology Section                        | 0           | Unit currently not operating  |
| Tax Filing Processing Section                 | 0           | Unit currently not operating  |
| SUT Audit Section                             | 41          | 2 Supervisors formally assigned   |

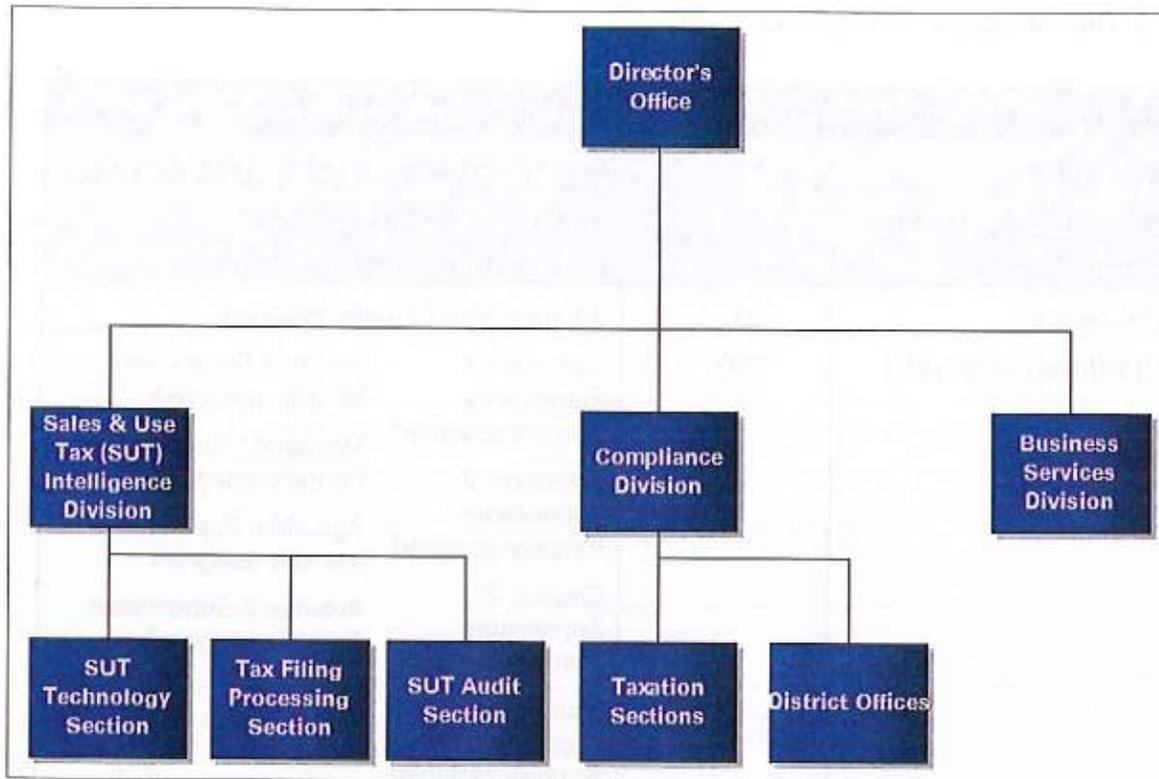


Figure 9 Consumption Tax Organizational Chart

### 3.2.1.3 Fiscal Audits Bureau

| Unit  | Total Staff | Current Leadership Situation   |
|---|-------------|--|
| Director's Office                           | 6           | Director in place, the Sub-Director position is vacant   |
| Operations Review Section                   | 2           | This office responds directly to the Director's Office, there's no Supervisor in place   |
| Investigations Division                     | 4           | Chief of Division formally assigned  |
| Employer Investigations Section             | 13          | Interim Supervisor assigned  |
| Interventions Section                       | 19          | Supervisor formally assigned   |
| Specialized Investigations Section          | 18          | Supervisor formally assigned   |
| Fiscal Audit Districts (7 District Offices) | 166         | Arecibo, Bayamón, Caguas, Humacao, Mayagüez: 2 Supervisors formally assigned<br>San Juan and Ponce: 1 Supervisor formally assigned |

| Unit                               | Total Staff | Current Leadership Situation  |
|------------------------------------|-------------|---|
| Investigated Cases Review Division | 9           | Chief of Division formally assigned and an Interim Supervisor assigned as support |

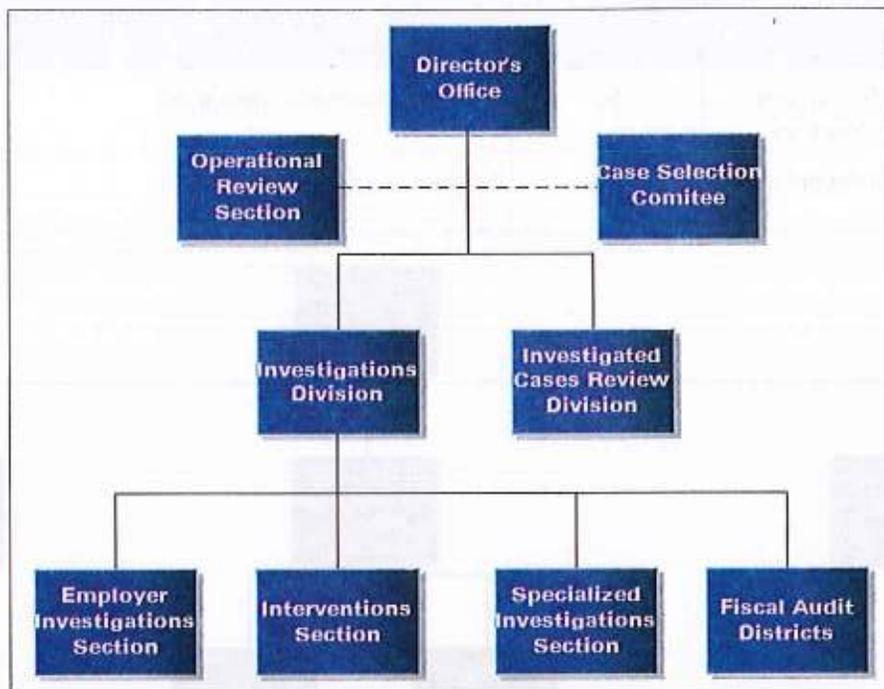


Figure 10 Fiscal Audit Organizational Chart

### 3.2.1.4 Processing Bureau

| Unit   | Total Staff | Current Leadership Situation  |
|--|-------------|---|
| Director's Office                              | 8           | Director and Sub-Director formally assigned.  |
| Processing Division                            | 0           | Unit not operating, Supervisors of the Sections under this division report directly to the Director of the Bureau |
| Classification and Numbering Section           | 11          | Interim Supervisor assigned   |
| Preliminary Revision Section                   | 45          | Interim Supervisor assigned   |
| Tax Filing Adjustment and Requirements Section | 25          | Interim Supervisor assigned   |
| Account Administration Section                 | 15          | Interim Supervisor assigned   |
| Information Systems' Support Division          | 0           | Unit not operating, Supervisors of the Sections under this division report directly to the Director of the Bureau |

| Unit  | Total Staff | Current Leadership Situation  |
|---|-------------|---|
| Data Correction Section                         | 52          | Interim Supervisor assigned   |
| Data Entry Section                              | 152         | Two Supervisors formally assigned   |
| Fiscal Compliance and Archive Division          | 0           | Unit not operating, Supervisors of the Sections under this division report directly to the Director of the Bureau |
| Corporate and Estimated Tax Filing Form Section | 20          | Interim Supervisor assigned   |
| Archive and Photocopies Section                 | 22          | Interim Supervisor assigned   |

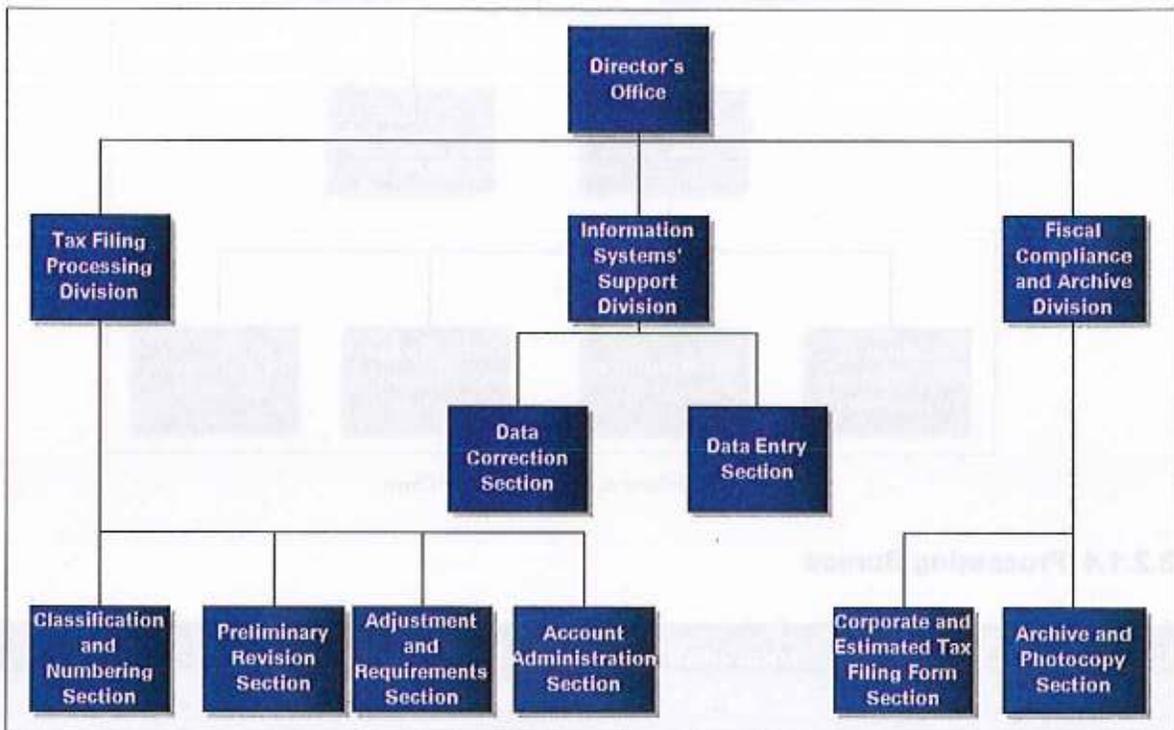


Figure 11 Processing Bureau Organizational Chart

### 3.2.1.5 Taxpayer Assistance and Specialized Consults Bureau

| Unit   | Total Staff | Current Leadership Situation  |
|--|-------------|---|
| Director's Office  | 2           | No Director or Sub-director formally assigned. The Bureau reports directly to the Assistant Secretary of Internal Revenue, assisted by 2 Contribution Executives. |
| Division of Tax Practitioners' Regulations and Education | 6           | Chief of Division formally assigned   |

| Unit  | Total Staff | Current Leadership Situation  |
|---|-------------|---|
| Publications and Forms Division                       | 6           | Interim Chief of Division assigned  |
| Administrative Reviews and Legislations Division      | 14          | Interim Chief of Division assigned  |
| Administrative Decisions Section                      | 0           | No personnel formally assigned to this Section, its activities are distributed among the other sections of the division                       |
| Special Societies and Individual Corporations Section | 0           | Due to law changes, this Section is currently not operating   |
| Pension Plans Section                                 | 0           | No personnel formally assigned to this Section, its activities are distributed among the other sections of the division                       |
| Inheritance and Donations Section                     | 20          | Interim Supervisor assigned   |
| General Consults Section                              | 6           | No supervisor or Interim supervisor assigned. Personnel reports directly to the Chief of the Administrative Reviews and Legislations Division |
| Tax Exemption Division                                | 8           | Interim Chief of Division assigned  |

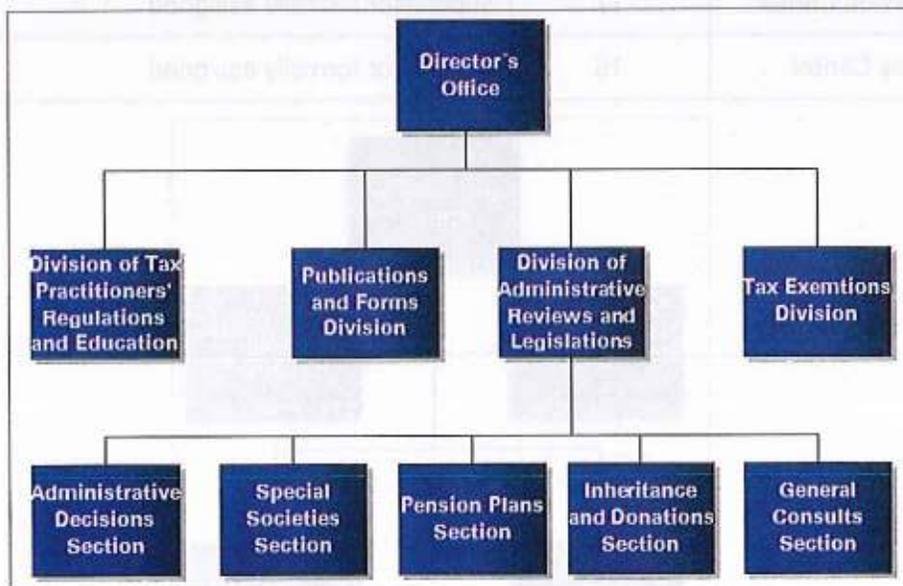


Figure 12 Taxpayer Assistance and Specialized Consults Bureau Organizational Chart

### 3.2.1.6 Taxpayer Services Bureau

| Unit                                    | Total Staff | Current Leadership Situation  |
|---|-------------|---|
| Director's Office                       | 12          | Director formally assigned and an Interim Sub-Director assigned. There are no divisions in this Bureau, all Service Center Supervisors report directly to the Director of the Bureau. |
| Special Project                         | 23          | No Supervisor or Interim Supervisor assigned  |
| Immediate Respond                       | 20          | Interim Supervisor assigned   |
| San Juan Mercantil Plaza Service Center | 34          | Supervisor formally assigned  |
| San Juan Intendente Ramirez Building    | 37          | Supervisor formally assigned  |
| Bayamon Service Center                  | 12          | Supervisor formally assigned  |
| Call and Mail Center                    | 34          | Interim Supervisor assigned   |
| Ponce Service Center                    | 15          | Interim Supervisor assigned   |
| Aguadilla Service Center                | 10          | Interim Supervisor assigned   |
| Arecibo Service Center                  | 13          | Interim Supervisor assigned   |
| Mayaguez Service Center                 | 17          | Supervisor formally assigned  |
| Caguas Service Center                   | 15          | Supervisor formally assigned  |

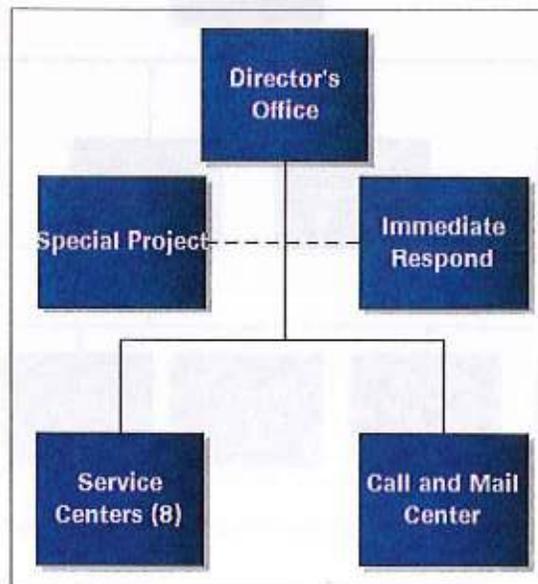


Figure 13 Taxpayer Services Bureau Organizational Chart

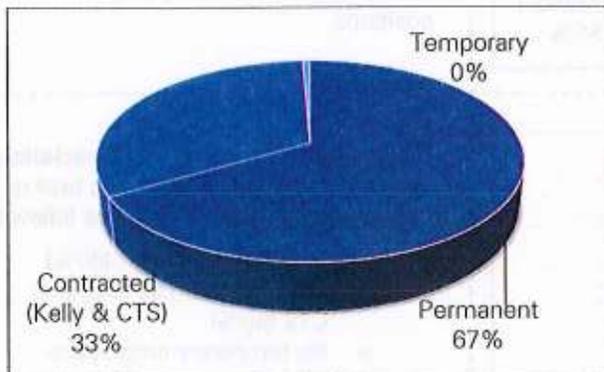
### 3.2.1.7 Personnel Composition

This section describes the level of staffing and how staff is divided among the bureaus, taking into consideration the personnel that is contracted through external companies and that occupy core positions. It is important to have a clear knowledge of the current composition of the staff in order to identify the changes and modifications it could experience if a tax reform is implemented.

The internal revenue area currently has a total of 1,904 employees (as of May 2014), this staff generated general fund net revenue of US\$8,502,235,000 from July 2012 to June 2013.

The graphs presented below show the results of KPMG's analysis regarding the composition of the personnel by bureau and a brief description of the actual situation. The personnel have been classified into 3 categories:

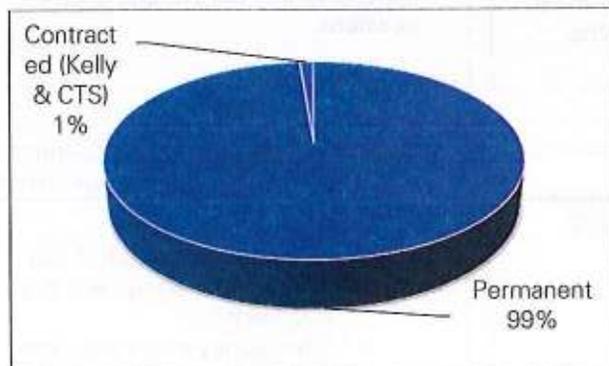
- **Permanent:** Staff that is hired directly by the Department of the Treasury.
- **Contracted:** Personnel that are contracted throughout the external companies Kelly Services and Caribbean Temporary Services (CTS).
- **Temporary:** Staff that is hired directly by the Department of the Treasury but for a defined period of time.



**Collections Bureau:** Currently a total of 847 total employees, divided as follows:

- 565 permanent staff (67%)
- 277 contracted by Kelly and CTS (33%)
- 5 temporary employees (less than 1%)

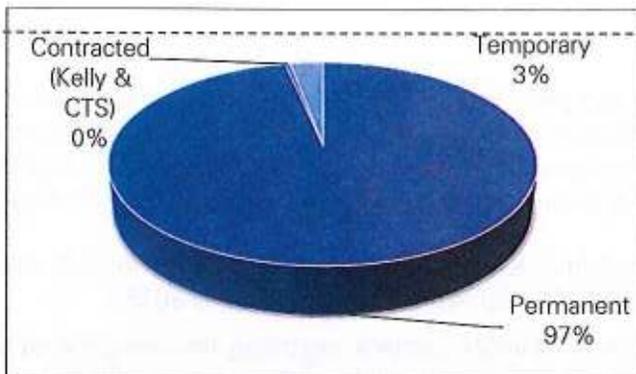
31% of the total employees are contracted and are occupying core positions.



**Consumption Tax:** Currently a total of 403 total employees, divided as follows:

- 398 permanent staff (99%)
- 5 contracted by Kelly and CTS (1%)
- No temporary employees

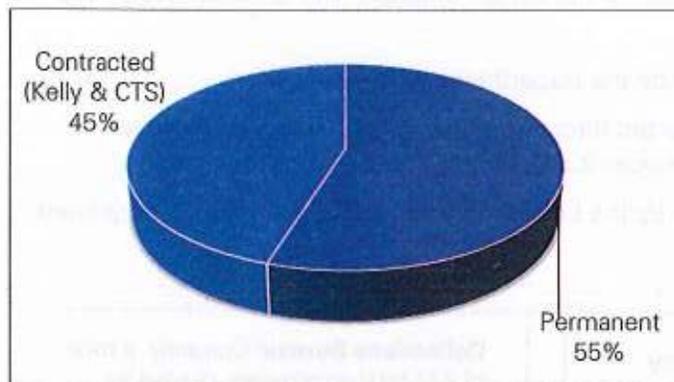
Contracted personnel occupy mainly administrative position with the exception of one Advisor position.



**Fiscal Audits Bureau:** Currently a total of 237 total employees, divided as follows:

- 229 permanent staff (97%)
- 1 contracted by Kelly and CTS (less than 1%)
- 7 temporary employees (3%)

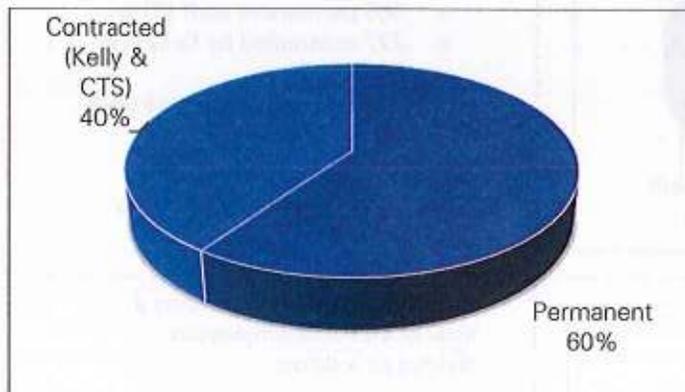
Temporary and contracted personnel occupy mainly administrative positions.



**Processing Bureau:** Currently a total of 350 total employees, divided as follows:

- 192 permanent staff (55%)
- 158 contracted by Kelly and CTS (45%)
- No temporary employees

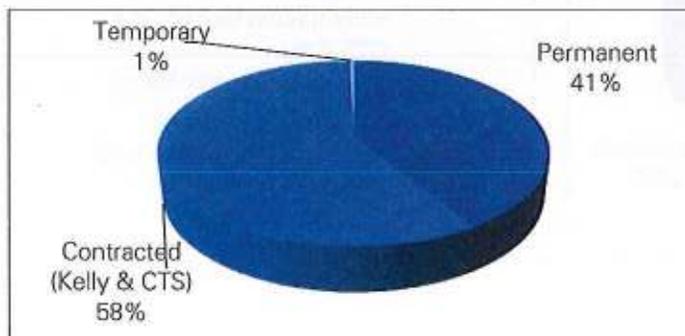
24% of the total employees are contracted and are occupying core positions.



**Taxpayer Assistance and Specialized Consults Bureau:** Currently a total of 62 total employees, divided as follows:

- 37 permanent staff (60%)
- 25 contracted by Kelly and CTS (40%)
- No temporary employees

11% of the total employees are contracted and are occupying core positions.



**Taxpayer Services Bureau:** Currently a total of 242 total employees, divided as follows:

- 100 permanent staff (41%)
- 141 contracted by Kelly and CTS (58%)
- 1 temporary employee (Less than 1%)

A total of 45% of the employees are contracted and are occupying core positions.

### 3.2.2 Governance Structure

This section evaluates the governance structure of the Internal Revenue Area while emphasizing two main aspects: the accountability level and the average span of control. The purpose of this analysis is to describe the current level of control, accountability and responsibility among the Bureaus of Internal Revenue and its operational activities.

It is important to have a clear understanding of the formal governance structure throughout the Internal Revenue Area in order to identify the key resources that could lead the possible changes and modifications during implementation in the near future.

#### 3.2.2.1 Current leadership situation

The following table shows the total numbers and corresponding percentage of the current manager positions throughout all levels of the Internal Revenue Area.

- **Formally Occupied:** Leadership positions where employees are formally assigned as Director, Chief and Supervisors.
- **Interim:** Leadership positions filled with Team Leaders working as interim Director, Chief or Supervisors.
- **Vacant:** Unfilled leadership positions.

| Manager Positions  | Total | Formally Occupied | %   | Interim | %   | Vacant | %   |
|--------------------|-------|-------------------|-----|---------|-----|--------|-----|
| Directors          | 6     | 5                 | 83% | 0       | 0%  | 1      | 17% |
| Chiefs of Division | 17    | 8                 | 47% | 4       | 24% | 5      | 29% |
| Supervisors        | 81    | 45                | 55% | 29      | 36% | 7      | 9%  |

Overview:

- **Directors:** The Taxpayer Assistance and Specialized Consults Bureau is without a formal Director
- **Chief of Division:** 24% of the current positions are filled by a Team Leader on an interim basis and 29% of the positions are vacant.
- **Supervisors:** 36% of the current Supervisor positions are filled by a Team Leader on an interim basis.

\*Refer to the Appendixes section to find the complete tables by bureau.

#### 3.2.2.2 Span of Control

Span of control refers to the total number of subordinates that an individual can manage effectively. The more people that report to a manager, the wider the span of control is. It is important to consider span of control when creating an organizational structure in order to help ensure optimal functioning and improved response time at each level.

Span of control should be as broad as possible without sacrificing efficiency. However, there is a limit to the number of positions one person can effectively be responsible for.

- At the senior manager level roles the general consensus is that the optimal ratio for senior levels is 6 to 12 subordinates.
- At the lower manager level, the span of control can range from 7-30 subordinates, depending on the nature of the work, the complexity of the activities performed and time the manager has available for supervising duties.

The following tables show the percentage of leadership roles that are vacant or occupied by an interim leader, and the average span of control among the Bureaus of Internal Revenue by management level. The level and optimal ratio will be defined as following:

- Level 1 – Directors – Optimal Ratio: 6-12 subordinates per manager.
- Level 2 – Chiefs of Divisions – Optimal Ratio: 6-12 subordinates per manager.
- Level 3 – Supervisors – Optimal Ratio 7-30 subordinates per manager.

| Results          |                |                |     |                          |     |                |     |
|------------------|----------------|----------------|-----|--------------------------|-----|----------------|-----|
| Manager Position | Total Occupied | <Optimal Ratio | %   | Within the Optimal Ratio |     | >Optimal Ratio | %   |
| Level 1          | 5              | 0              | 0%  | 2                        | 40% | 3              | 60% |
| Level 2          | 12             | 4              | 33% | 4                        | 33% | 4              | 33% |
| Level 3          | 74             | 2              | 3%  | 64                       | 86% | 8              | 11% |

Overview:

**Level 1:** 60% of the Directors have more than 12 direct reports.

**Level 2:** 33% of the Chiefs of Divisions have less than 6 direct reports, 33% have more than 12 direct reports.

**Level 3:** 11% of current Supervisors have more than 30 direct reports.

\*Refer to the Appendixes section to find the complete information tables by Bureau.

### 3.2.2.3 Accountability and Responsibility

This section describes the level of accountability and responsibility for the different processes mentioned on section 3.1 *Services, Processes and Functions*. The objective is to provide an overview of the distribution of activities among the control levels of the organizational structure. The following statements will provide a general insight into the activities performed by the participating roles among this processes:

\*Refer to the Appendixes section for the complete RACI analysis.

### 1. **Submission:**

This process is performed by the Preliminary Review Section and the Numbering and Classification Section, both under the Tax Filing Processing Division of the Processing Bureau.

- Clerks and Tax Technicians are responsible for enumerating and verifying that the required information is included in the tax filing form.
- Supervisors are accountable for generating productivity reports and distributing workload.
- The Director is informed of the daily productivity.

### 2. **Calculation:**

This process is performed by the Accounts Administration Section, Tax Filing Adjustment and Requirements Section, Data Correction Section, Data Entry Section, Archive and Photocopies Section and Corporate and Estimated Tax Filing Section of the Processing Bureau.

- In general, the operational and administrative positions such as Data Entry Operator, Office Clerks and Tax Technicians are responsible for performing manual and repetitive functions such as process, correct, verify, analyze and archive tax filing forms.
- Supervisors are accountable for checking the daily productivity, providing guidance to their staff and performing administrative duties.
- The Director is informed of the performance of the Processing Bureau and is accountable for ensuring that the tax filing forms are processed within the established timeframe.

### 3. **Fiscal Inspection – Sales and Use Tax:**

This process is performed in totality by the Compliance Division of the Consumption Tax Bureau, through its Taxation Section and District Offices.

- Internal Revenue Agents are responsible for receiving referred cases of possible tax evaders, elaborating inspection plans, performing inspections on the corporations and preparing the final report of the inspection, depending on the case.
- Tax Technicians are responsible for calculating the debt and notifying the taxpayer.
- The Chief of the Compliance Division is accountable for analyzing all cases and generating a consolidated report, which is sent periodically to the Director of the Bureau.

### 4. **Fiscal Inspection – Ports:**

This process is performed in totality by the Compliance Division of the Consumption Tax Bureau, through its Taxation Section and District Offices.

- Internal Revenue Agents are responsible for verifying the merchandise that will be introduced into Puerto Rico and for inspecting the goods directly at the ports.
- Internal Revenue Agents are accountable for determining the applicable tax and releasing the merchandise.
- The Chief of the Division is accountable for keeping track of the worked cases and the Director of the Bureau is informed of the productivity.

### 5. **Fiscal Audits:**

This process is performed in totality by the Fiscal Audit Bureau, through its two Divisions: Investigations and Investigated Cases Review.

- The Case Selection Committee is accountable for selecting randomly cases for investigation.
- The Chief of the Investigation Division is responsible for distributing cases among the Fiscal Audit Districts.
- The Supervisor of the District is responsible for assigning cases to the Auditors based on their expertise. Auditors are responsible for performing the investigations, requesting information and notify the taxpayer of the investigation results.
- District Supervisors are accountable for closing the cases on the system.
- The Chief of the Investigated Cases Review Division is responsible for receiving cases that could not be resolved by the Fiscal Audit Districts, assigning them to an Auditor from its Division that would be responsible for analyzing the case.
- The Chief of the Investigated Cases Review Division is accountable for performing the quality assurance of the investigated cases and also for adjusting, canceling or approving the deficiency amount on the system.

#### **6. Collection Management:**

Process performed by the Collections Bureau, specifically by the Compliance and Collections Division, through the District Offices and Call Centers.

- In this process, the Tax Technicians are responsible for notifying and visiting delinquent debtors, they are also responsible for reaching a payment agreement with the taxpayer and completing the necessary forms for a property seizure.
- Supervisors of the Collection Districts are responsible for assigning and distributing cases among the Tax Technicians.
- They also provide guidance and advice in complex cases and are accountable for approving the payment agreements and property seizures.
- The Chief of the Division also provides guidance and advice, and is accountable for the cancelation of the property seizures.
- The Chief of the Compliance Division is also responsible for generating monthly performance reports for the Director of the Bureau.

#### **7. Deduction on wages:**

Process performed by the Collections Bureau, specifically by the Compliance and Collections Division, through the Salary Discount and Analysis Section.

- Tax Technicians are responsible for analyzing cases of delinquent debt of government employees.
- The Supervisor is responsible for distributing cases among the personnel and is accountable for approving the deductions from the government employees' wages.
- The Supervisor is also responsible for tracking the productivity and informing the Chief of the Division.

#### **8. Voluntary Compliance:**

Process performed by the Collections Bureau, specifically by the Collection Center Division through the Collection Center District Areas and the Payment Application Section.

- The Collectors at the Collection Center and the Supervisor of the Payment Application Section are accountable for receiving the payments directly from the taxpayers, processing the payments on the system, generating the receipts and transferring the payments to the bank.
- Supervisors are accountable for keeping track of the amounts collected by District.
- The Chief of the Division is accountable of the compliance of the Division's collection goals.

## 9. Taxpayer Services:

This process is performed by the Taxpayer Services Bureau, through their Service Centers.

- Tax Technicians, Tax Auditors and Clerks are responsible for providing taxpayer service by phone, mail or in person; they also are responsible for analyzing consults and verifying all the necessary documentation provided by the taxpayer.
- Tax Technicians are accountable for closing resolved cases in the system.
- The Supervisors of the Service Center are accountable for generating production reports and performing administrative duties.
- The Director of the Bureau is informed through the Q-Matic system, about the daily progress of the services provided and is accountable for coordinating the operation of the Service Centers and managing the available resources.

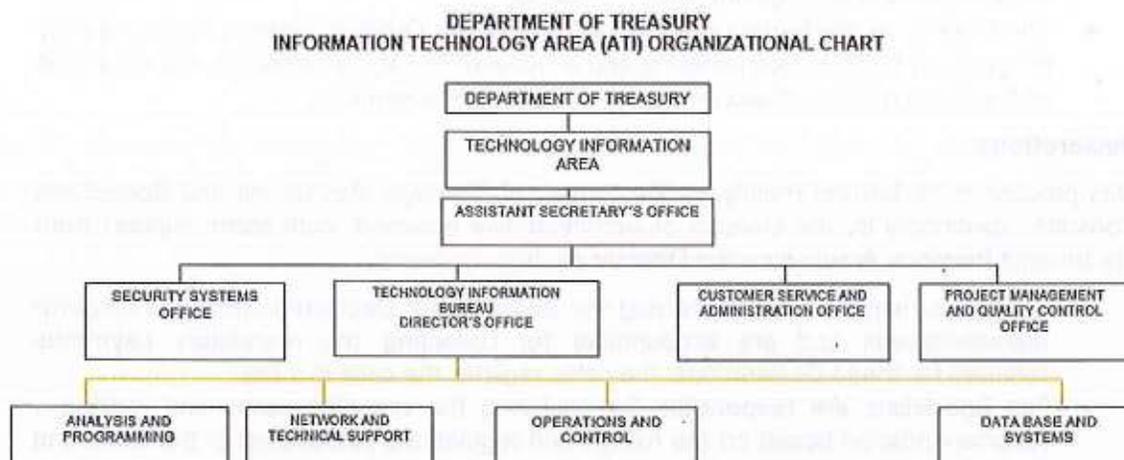
## 10. Declarations:

This process is performed mainly by the Bureau of Taxpayer Assistance and Specialized Consults, specifically by the Division of Administrative Reviews, with some support from the Internal Revenue Area, since the Director position is vacant.

- Clerks are responsible for receiving the Requests for Declaration from the taxpayer representatives and are accountable for collecting the mandatory payments required for these Declarations; they also register the case in a log.
- Tax Specialists are responsible for analyzing the complex cases and making a recommendation based on the rulings and regulations established in the Code and other legislation.
- Supervisors are responsible for assigning cases and providing advice to the Tax Specialist on cases that require detailed knowledge of the Code.
- Since the Director position is currently vacant, the Internal Revenue Assistant Secretary is accountable for approving the recommendations presented by the Tax Specialist and to attend meetings with the taxpayers' representatives supported by two Tax Executives.

### 3.3 Current IT Organization

The Information Technology Area (ATI) of the Department of Treasury is directed by the Assistant Secretary's Office. ATI is organized into the following functional areas, which are described in the following organizational chart:



The Bureau of Information Technology (BIT) is responsible for defining the strategy, organization, processes, and tools for the Department of Treasury. This includes risk awareness, reporting and tracking of results, risk mitigation, and timely resolution of issues.

BIT facilitates the aggregation and reporting of results identified by the various reviews taking place within the Department of Treasury –e.g., external auditors. The results, any significant findings, and corresponding corrective action plans are communicated to the IT Office of the Deputy Clerk and relevant parties to follow up until its resolution.

BIT also includes the Business Continuity Services team, which provides governance for the business continuity and disaster recovery tests across the Department of the Treasury. Business continuity activities are coordinated and facilitated within each of Department of Treasury regions by the local business continuity organizations. Finally, BIT provides the Collection Centers ("Colecturías") with the necessary tools to facilitate baseline knowledge of control requirements.

The Office of Information Security has an initiative to create a System Audit area, since there is no such function at the time of this report. In recent months the Office of Information Security has done risk analyses of critical applications and components, which have detected a number of faults, and for which action plans are being developed to correct. Some of the actions being worked on include:

- Active monitoring of internal control systems
- Ongoing monitoring occurs in the course of operations and includes regular management and supervisory activities, as well as other actions personnel take in performing their duties.
- The scope and frequency of detailed evaluations, on the other hand, depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.
- Upon the discovery of internal control deficiencies, they are reported upstream, with serious issues immediately reported to top management and the Board.

- A Corrective Action Plan mechanism that directly follows the process allows management to track issues arising out of the self-assessment exercises that covers the complete issue lifecycle – from identifying risks to resolving identified deficiencies
- Monitoring of systems' performance is accomplished through ongoing monitoring activities and separate point-in-time evaluations

### 3.3.1 Current Infrastructure

The information in this section captures the infrastructure at the time of this report.

BIT contracted IT service provider "EVERTEC" in September 2013, to update and manage the internal and external networks (Hardware and Software) of the Department of the Treasury to provide redundancy and ensure adequate communication services for the Internal Revenue Area.

The diagram below shows the main locations and interconnections of the Department of the Treasury. The interconnections between the Department of the Treasury, Collection Centers and government entities systems are done using a heterogeneous set of network technologies. Access to the Department of the Treasury intranet is managed by ATI using a Fortigate firewall, which restricts external access to internal systems.

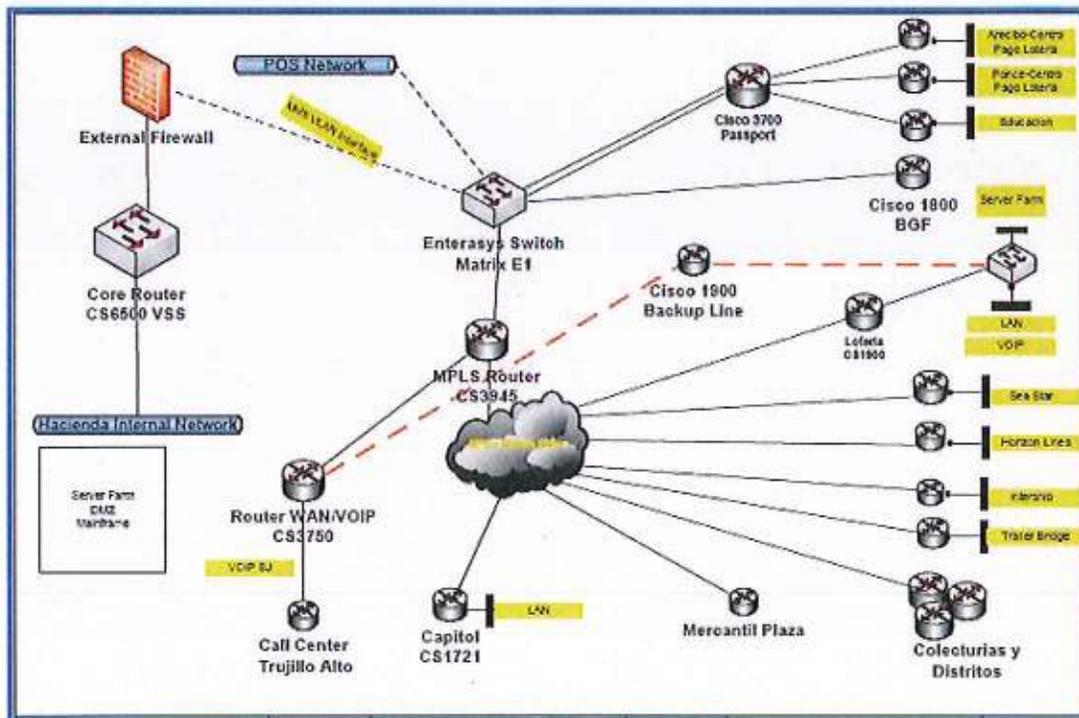


Figure 14 - Department of Treasury actual network diagram

The Department of the Treasury, specifically the area of Internal Revenue, uses five core systems, which are described below. These systems run on IBM Mainframes using the Z/OS operating system, with the data stored in (DB2) databases from IBM or Adabas (Adaptable Database System) from Software AG.

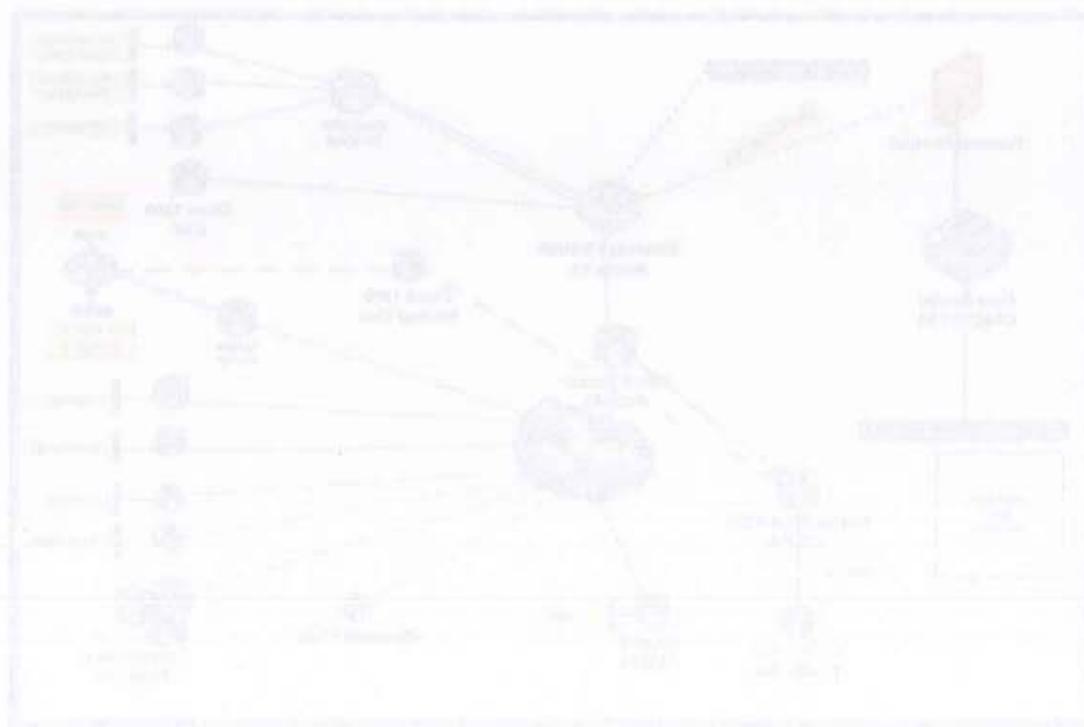
Additionally, there are other peripheral systems that support key applications and various types of physical and virtual Windows distributed operating systems hosted in nine servers.

BIT hosts the systems and provides redundancy for business continuity.

### 3.3.2 Current Applications

The Bureau of Information Technology supports various systems and applications within the Department of the Treasury such as credit card payment systems, trading desk applications, general ledger, accounting and financial reporting systems.

Below is an overview of the core and peripheral systems used within Internal Revenue. In addition, this section provides an overview of the interactions between the core and peripheral systems.



| Vendor / In House | Application        | General Description  | Operating System | Data Base | Programming Language | Type of Server   |
|-------------------|--------------------|--|------------------|-----------|----------------------|------------------|
| Vendor            | REFO               | REFO system - (Tax Reform), introduced in 1988. Handles the individuals' short and long tax returns by tracking them from the time they reach the Department of the Treasury until they are processed (final status such as: reimbursement, taxation or exempt). It includes other subsystems to handle individual submissions such as: extensions, estimates, buy and sale, informative, triplicate, and tax returns received through PEL and OCR.  | z/OS Mainframe   | DB2       | Cobol                | Physical         |
| Vendor            | PRIFAS             | Puerto Rico Integrated Financial Accounting System (PRITAS), introduced in July 2002. This application handles the accounting transactions of all the agencies of Puerto Rico and payments to suppliers. Maintains the inventories of the Agencies' (Fixed Assets) and records transactions to generate the financial statements of the State. It records all transactions from Collection Offices of the Department of the Treasury and all the transactions paid by the Government Development Bank. | Windows          | DB2       | PeopleCode           | Virtual/Physical |
| Vendor            | PRITAS             | Puerto Rico Integrated Tax Administrations System. Manages collected taxes, audits and processes income tax returns of corporations and partnerships. It handles case management, taxpayer identification, revenue accounting, automated correspondence, tax forms and document processing, taxpayer accounting and accounts receivable.   | z/OS Mainframe   | DB2       | Cobol                | Physical         |
| In House          | ARBITRIOS          | Supports the control of the merchandise imported into Puerto Rico, it covers merchandise arrival, taxation (determination of tax to be paid), payment, release of goods and inspection. ARBITRIOS has two major applications components: General Merchandise and Motor Vehicles.   | z/OS Mainframe   | Adabas    | Natural              | Physical         |
| In House          | Colecturía Virtual | Platform used by taxpayers and different Government agencies perform payment transactions  | Windows          | SQL       | .Net                 | Virtual          |



| Vendor / In House | Application        | General Description   | Operating System  | Data Base       | Program-<br>ming<br>Language | Type of Server |
|-------------------|--------------------|---|-------------------|-----------------|------------------------------|----------------|
|                   |                    | through the Internet. It offers services to different users, institutions and government agencies. Methods of payment are: ACH (Automated Clearing House), ATH (interbank network for ATMs), Credit Cards (Visa, Master Card) for non-contributory payments.  |                   |                 |                              |                |
|                   |                    | Contributory System, which allows transport companies to report to the Internal Revenue Department the shipping manifests.  |                   |                 |                              |                |
| In House          | SISCON             | Consists of four modules:<br>1. Transmission of electronic cargo manifest, taxation and release of goods (Users: Dealers and porters)<br>2. Inquiry screens for REFO and PRITAS data<br>3. Biography Data - Maintains biographical information of taxpayers, corporations and partnerships<br>4. Inquiry to Black Book - determines the excise payable (General Audience users) | z/OS<br>Mainframe | DB2 /<br>Adabas | .Net                         | Physical       |
| In House          | Control de Cuentas | Collection Accounting System: Summarizes collections by Collection Center, date and account.  | z/OS<br>Mainframe | DB2             | Cobol / Natural              | Physical       |
| In House          | POS                | System that operates in each of the collector's office to record payment transactions.  | z/OS<br>Mainframe | DB2 /<br>Adabas | Natural                      | Physical       |
| In House          | SISPLA             | This system is used to record requests for copies of Tax forms and maintain the status of the copy until it is returned to the archive.   | z/OS<br>Mainframe | DB2             | Natural                      | Physical       |
| In House          | PEL                | Set of WEB applications that form part of the tax filing process (tax return registration, return status, payments, tax return printing).   | Windows           | SQL             | .Net                         | Virtual        |
| Vendor            | SECPRO             | Statistical reporting of the tax filing process. It collects data from systems such as PRITAS and REFO.   | Windows           | SQL             | .Net                         | Virtual        |
| In House          | ETIE               | Electronic Tax Information Exchange. Captures tax returns submitted via PEL and creates data feeds to   | Windows           | SQL             | .Net                         | Virtual        |



| Vendor / In House | Application | General Description            | Operating System | Data Base | Program-<br>ming<br>Language | Type of Server |
|-------------------|-------------|--------------------------------|------------------|-----------|------------------------------|----------------|
|                   |             | REFO or PRITAS as appropriate. |                  |           |                              |                |

The following matrix shows at the time of this report the interactions (interfaces) that currently exist between the main and peripheral applications that support the operations and services of Internal Revenue. The interactions are read from row to columns (e.g. ARBITRIOS sends information to Colecturía Virtual, PRITAS and SISCON).

| SYSTEMS            | APPLICATIONS |                    |                   |        |      |                   |     |     |        |        |      |      |        |        |
|--------------------|--------------|--------------------|-------------------|--------|------|-------------------|-----|-----|--------|--------|------|------|--------|--------|
|                    | ARBITRIOS    | COLECTURÍA VIRTUAL | CONTROL DE CUENTA | CYSPLA | ETIE | CONTROL DE CUENTA | PEL | POS | PRIFAS | PRITAS | REFO | RHUM | SECPRO | SISCON |
| ARBITRIOS          | X            |                    |                   |        |      |                   |     |     | X      |        |      |      |        | X      |
| COLECTURÍA VIRTUAL | X            |                    |                   |        |      |                   |     |     | X      |        |      |      |        |        |
| CONTROL DE CUENTA  | X            |                    |                   |        |      |                   |     | X   |        |        |      |      |        |        |
| CYSPLA             | X            |                    |                   |        |      |                   |     |     | X      | X      |      |      |        |        |
| ETIE               |              |                    |                   |        | X    |                   |     |     | X      | X      |      |      |        |        |
| PEL                |              |                    |                   |        |      | X                 |     |     | X      | X      |      |      |        |        |
| POS                |              |                    |                   |        |      |                   |     |     | X      |        |      |      |        |        |
| PRIFAS             |              |                    |                   |        |      |                   |     |     | X      |        |      |      |        |        |
| PRITAS             |              |                    |                   |        |      |                   |     |     |        | X      |      |      | X      | X      |
| REFO               |              |                    |                   |        |      |                   |     |     |        |        | X    |      | X      |        |
| SECPRO             |              |                    |                   |        |      |                   |     |     |        | X      |      |      |        |        |
| SISCON             | X            |                    |                   |        |      |                   |     |     | X      |        |      |      |        |        |

Figure 15 - Application Relationship Matrix

### 3.3.3 Current Security

Currently the administration of the IT Security Policies is informal - employees have a general understanding of the risks and controls associated with the technology environment. New employees receive information on the proper use of the systems at the time of hiring during the induction process. In an effort to establish information security practices, the Department of the Treasury is creating an information security policy that spans the entire business, under the responsibility of the Office of Information Security. The policy will be made available through the intranet (which is also under implementation) and will be communicated across the enterprise. The policies and standards will be updated to ensure consistency with the overall strategy and industry leading practices.

The Information Security Organization will include all operation and technology functions associated with information security. A community of Business and Technology Information Security Officers should help ensure that each functional unit is represented and aware of information security practices and their applicability to the team's business-as-usual activities. It is necessary to complete annual training on relevant information security topics, and training completion is monitored, tracked, and escalated as required to help ensure full compliance with the requirement.

Newly hired employees and service providers, are expected to be aware of the information security policies and standards adopted within the enterprise and to have completed a training program about them. Training completion should be tracked and the timely training completion monitored and escalated to the head of information security through a Security Metrics Reports.

Department of the Treasury management has established minimum standards for user authentication for the various information resources (Distributed Systems, Enterprise Systems, and Infrastructure Applications) of the enterprise. The Office of Information Security team has developed specifications and parameters for each platform and system. The security specifications typically incorporate requirements for security settings, authentication controls, installed additional software packages (e.g. antivirus), and default user IDs. In general, the authentication standards also require that end-users access the systems through the use of a unique user name and password; which must meet predefined criteria, including length, complexity, history, and lockout after a number of unsuccessful attempts.

The Information Security team has implemented various controls to help ensure that the computing equipment and data center facilities are accessible to authorized personnel only. Personnel are onsite to monitor the perimeter and premises using cameras deployed across the property. Security guards also perform walk-through inspections for unusual activity and register all visitors that need to access any IT department or computer facilities. Data center premises and the computer rooms are secured with keycard locks, to ensure that only authorized personnel have access.

### 3.4 Sourcing & Locations

The activities that are currently outsourced were assessed to identify the current issues arising from those arrangements, determine if SLAs are in place and to identify any constraints that those arrangements impose on the current model. Likewise, the locations assessment focused on the geographical footprint of IRA evaluating the locations of buildings, operations centers, their running costs, and approximate occupancy utilizations.

#### 3.4.1 Current Contracts

Currently IRA manages the contracts for different technical and professional services. Based on information provided by the Administration Area on May 2014, IRA will spend in technical services contracts approximately \$800,000 until June 2014. The technical services contracts are related to:

- UPS Systems Maintenance
- Security Boxes Maintenance
- Application Licensing
- Diesel Plant Maintenance
- Data Base Management
- Maintenance of Computers
- Armored Transportation

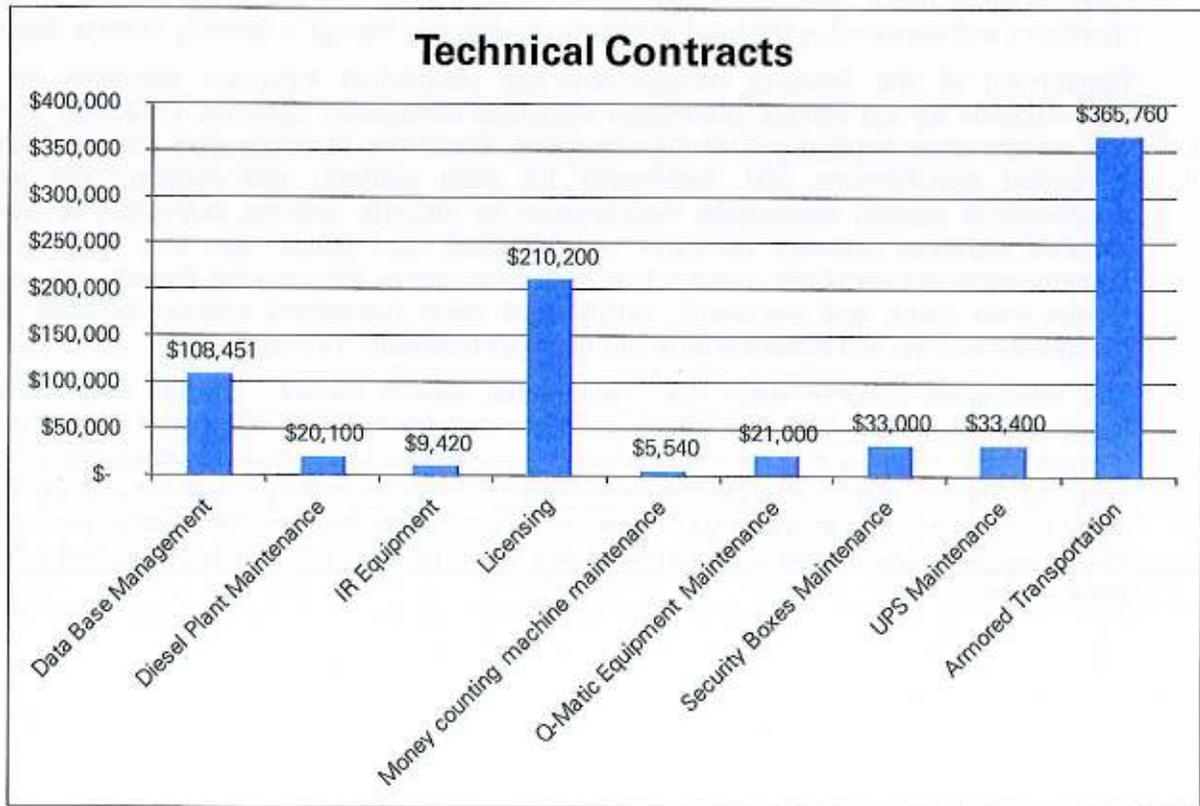


Figure 16 Cost of Technical Contracts

In professional services contracts, IRA currently spends approximately \$2.4 MM. The contracts are related to:

- Consulting
- Fiscal Investigation
- Legal Services
- Publicity
- Translation Services

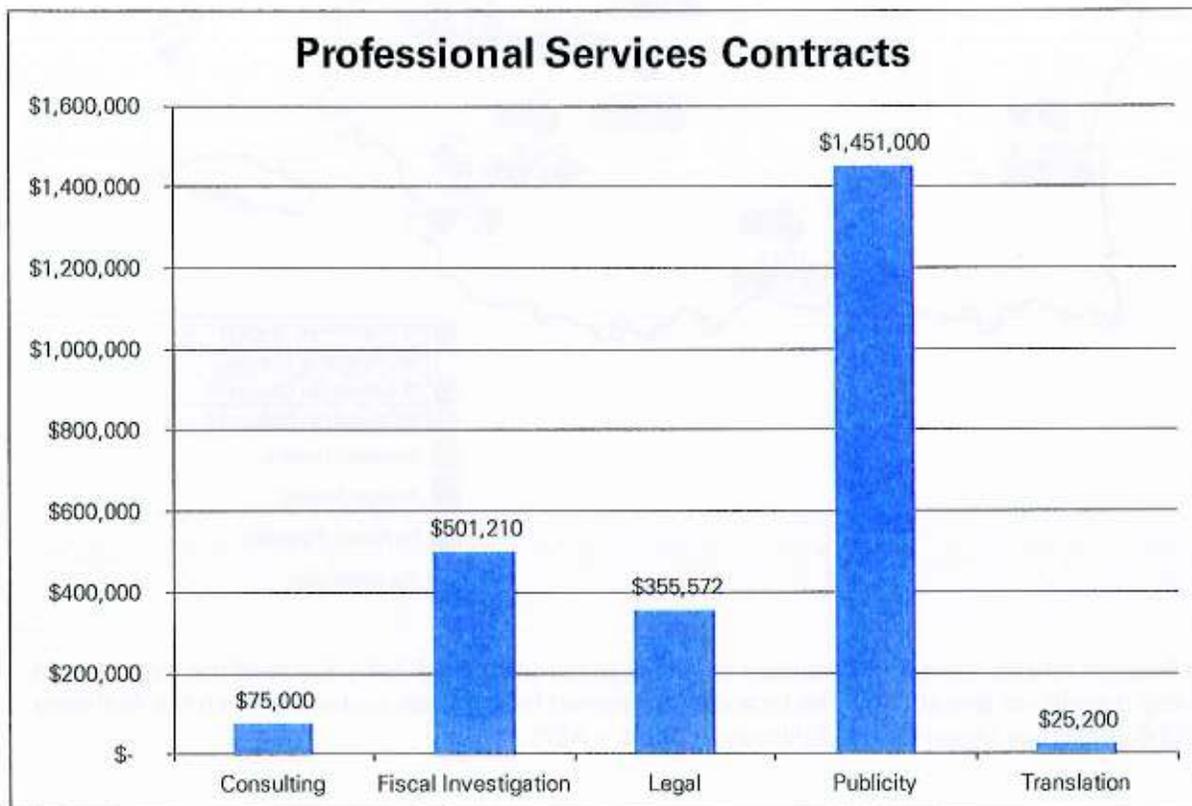
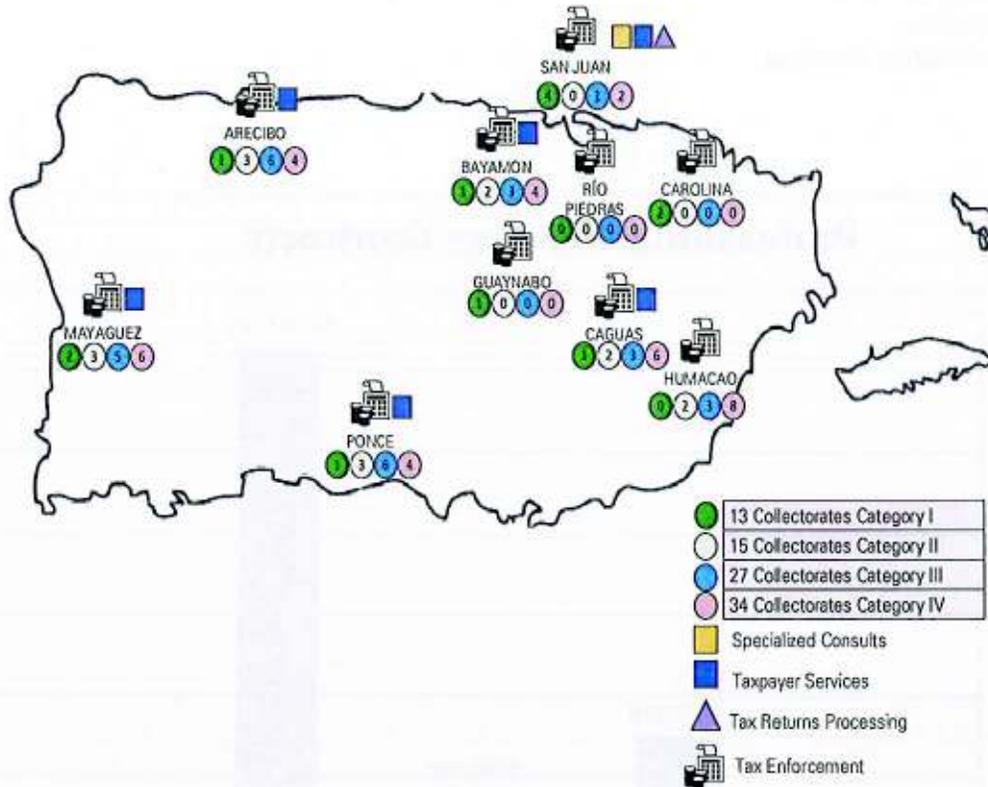


Figure 17 Annual Costs of Professional Services

The actual management of the Service Level Agreements and Quality of the Service/Product is the responsibility of the Bureau that requests and approves the contract. The Administration Office in the Department gives support to the Bureaus preparing the contract, following up on the required signatures and providing Legal Assistance if necessary.

### 3.4.2 Current Locations

IRA has 164 locations throughout Puerto Rico, divided in four regions (South, East, Metro and North).



The location rentals represent an annual cost of approximately \$9.5 MM. Some of the locations do not pay monthly or annual rent. The locations are rented from private owners or from the Authority of Public Buildings (Autoridad de Edificios Públicos – AEP).

## Amount of Locals per Region

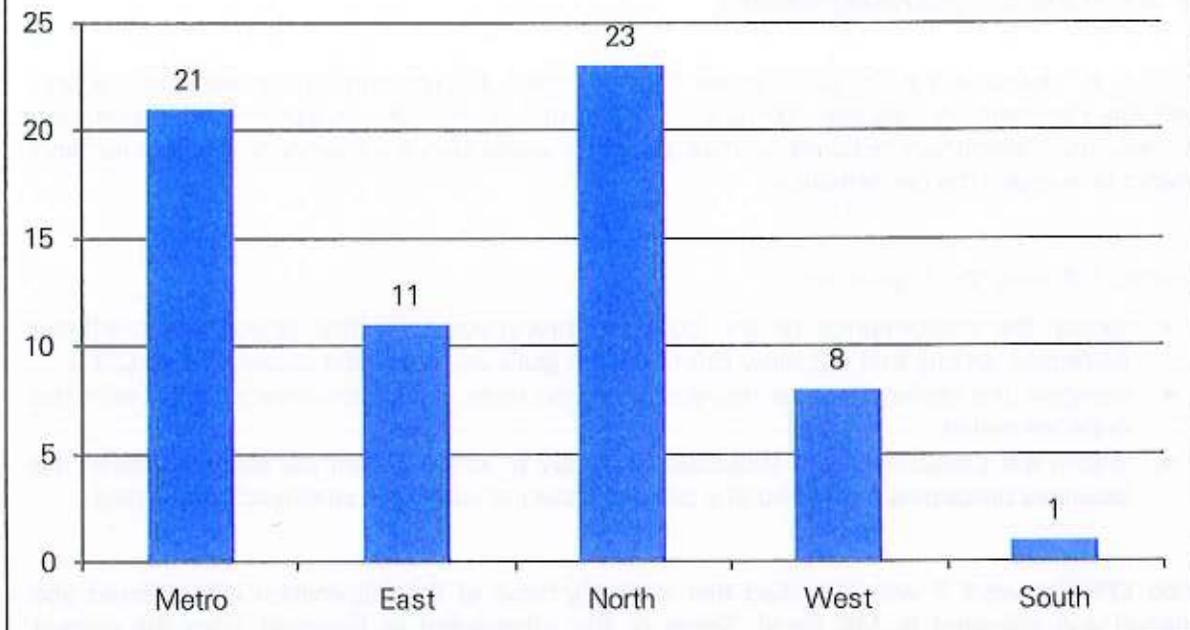


Figure 18 Amount of Locals per Region

The Regional Offices in Metro Region represent 74% of the Total Annual Rental Costs.

## Rent per Region (USD)

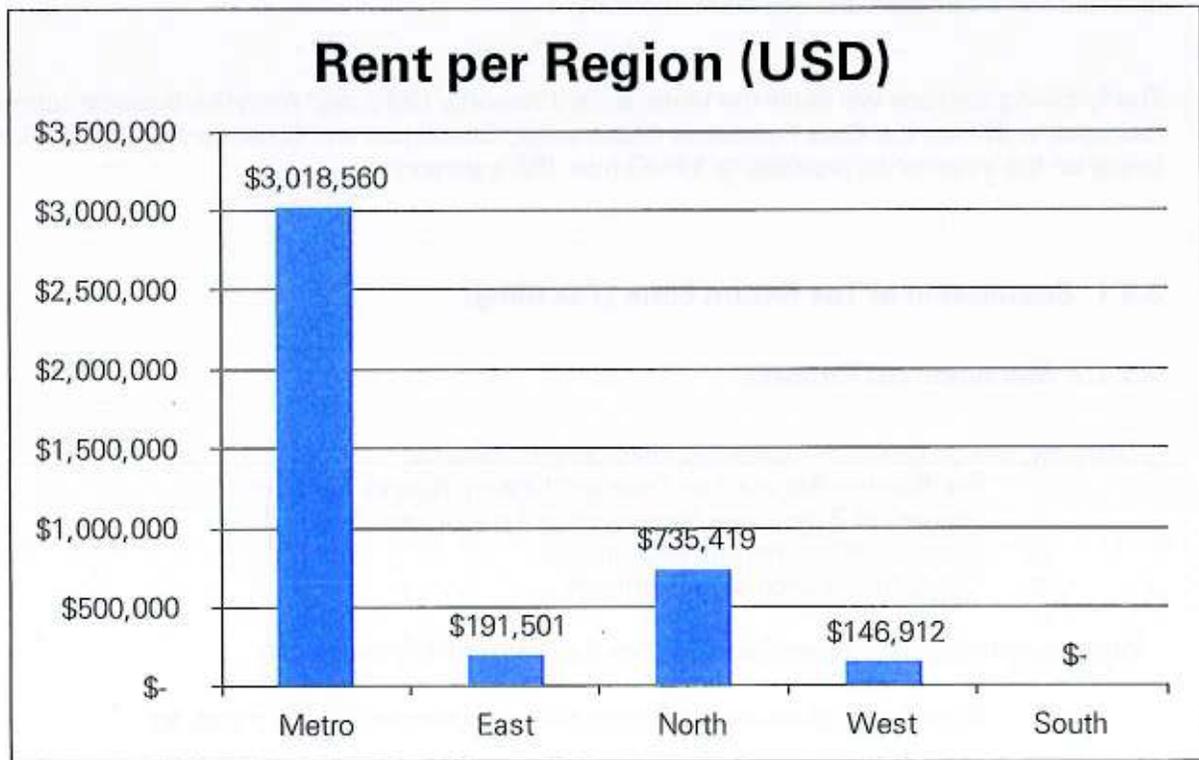


Figure 19 Comparison of Annual Costs for Regional Offices

## 3.5 Performance Management

This section assesses the Critical Success Factors (CSFs) for the current operating model and which Key Performance Indicators (KPIs) are used to track them. The assessment also evaluates how well the information required to manage IRA's performance is generated, governed and analyzed to improve the performance.

Currently, IRA uses the Reports to:

- detect the performance of the business processes with the objective of defining corrective actions that will allow IRA reach the goals and cover the corresponding CSFs
- compare the performance of the current period under evaluation (month, year) with the previous period
- inform the Executive Team (Assistant Secretary of all the Areas) the performance of the business processes at the end of a specific period or when it is specifically requested

During KPMG's work it was identified that currently most of the information is registered and managed and prepared in MS Excel. Some of the information is imported from the current Information Systems that support IRA's information, like: PRITAS, PRIFAS, REFOS and SISPLA.

The analyzed information was provided by different personnel of IRA who are responsible for preparing and analyzing the data, reviewing KPIs and presenting the current Reports to the different IRA's Directors and Assistant Secretary.

The following sections will detail the Management Reports, CSFs, and Analytics Baseline currently managed in IRA for the Core Processes (Submission, Calculation and Collection) and Fiscal Audit; based on the information provided to KPMG from IRA's personnel.

### 3.5.1 Submission of Tax Return Form (Tax filing)

#### 3.5.1.1 Management Reports

Currently, IRA produces the following Management Reports:

- Tax Returns Received on Time and Late by Type of Tax Filing
- Amount of Extensions Requested by Type of Tax Filing
- Amount of Tax Returns Enumerated
- Tax Administration Measurements

IRA's current Critical Success Factor for the Reception of Tax Returns is:

- Submit effectively and efficiently all the tax returns filed by taxpayers

### 3.5.1.2 Analytics Baseline

The current performance baseline for the submission of tax returns IRA monitors in its Scorecards use the following reports:

a. Report of Received Tax Returns per Type of Return (Individuals)

| Estadísticas de Planillas de Individuos 2013 |                     |                |                         |                                  |                         |                |                        |                         |                |
|--|---------------------|----------------|-------------------------|----------------------------------|-------------------------|----------------|------------------------|-------------------------|----------------|
| Concepto                                     | Planillas Recibidas | Recaudos       | %                       | Planillas Listas Para Reintegrar | Monto a Reintegrar      | %              | Planillas Reintegradas | Montos Reintegrados     | %              |
| <b>Planillas Electrónicas</b>                |                     |                |                         |                                  |                         |                |                        |                         |                |
| Planilla - Individuo con Pago                | 25,252              | 4.88 %         | \$18,418,184.00         | -                                | -                       | -              | -                      | -                       | -              |
| Planilla - Individuo con Reintegro           | 453,643             | 87.22 %        | -                       | 204,920                          | \$176,951,647.00        | -              | 184,928                | \$111,033,568.64        | -              |
| Planilla - Individuo Exentas                 | 41,215              | 7.92 %         | -                       | -                                | -                       | -              | -                      | -                       | -              |
| <b>Total Electrónicas</b>                    | <b>520,145</b>      | <b>52.86 %</b> | <b>\$18,418,184.00</b>  | <b>204,920</b>                   | <b>\$176,951,647.00</b> | <b>73.93 %</b> | <b>184,928</b>         | <b>\$111,033,568.64</b> | <b>88.94 %</b> |
| <b>Planillas Individuo en Papel</b>          |                     |                |                         |                                  |                         |                |                        |                         |                |
| Planilla - Individuo con Pago                | 68,547              | 12.83 %        | \$169,171,099.63        | -                                | -                       | -              | -                      | -                       | -              |
| Planilla - Individuo con Reintegro           | 404,328             | 87.17 %        | -                       | 71,502                           | \$62,413,407.00         | -              | 52,114                 | \$28,145,623.29         | -              |
| <b>Total Individuo en Papel</b>              | <b>483,945</b>      | <b>47.14 %</b> | <b>\$169,171,099.63</b> | <b>71,502</b>                    | <b>\$62,413,407.00</b>  | <b>26.07 %</b> | <b>52,114</b>          | <b>\$28,145,623.29</b>  | <b>19.06 %</b> |
| <b>Total de Planillas de Individuo</b>       | <b>984,090</b>      | <b>82.72 %</b> | <b>\$187,587,892.63</b> | <b>276,422</b>                   | <b>\$239,365,054.00</b> | <b>100.00%</b> | <b>237,042</b>         | <b>\$137,179,091.93</b> | <b>100.00%</b> |
| Planillas Senior                             | 206,043             | 17.28 %        | del total de planillas  | -                                | -                       | -              | -                      | -                       | -              |
| <b>Total de Planillas Recibidas</b>          | <b>1,189,733</b>    | <b>100.00%</b> | <b>\$187,587,892.63</b> | <b>276,422</b>                   | <b>\$239,365,054.00</b> | <b>100.00%</b> | <b>237,042</b>         | <b>\$137,179,091.93</b> | <b>100.00%</b> |
| Prórroga con Pago                            |                     |                | \$22,709,314.70         |                                  |                         |                |                        |                         |                |
| Pagos de Estimada 2014                       |                     |                | \$20,408,152.68         |                                  |                         |                |                        |                         |                |
| <b>Total de Recaudos</b>                     |                     |                | <b>\$229,705,980.19</b> |                                  |                         |                |                        |                         |                |

Note: PDF delivered by IRA

b. Report of Received Tax Returns per Type of Return (Corporate)

| Estadísticas de Planillas Corporativas 2013 |                     |                          |
|---|---------------------|--------------------------|
| viernes, 02 de mayo de 2014                 |                     |                          |
| Concepto                                    | Planillas Recibidas | Recaudos                 |
| Planillas Con Pago                          | 6,418               | 16.95 % \$302,652,457.11 |
| Planilla Con Reintegro                      | 9,625               | 25.16 %                  |
| Prórroga con Pago                           | 1,755               | 4.64 %                   |
| Prórroga s/n Pago                           | 20,166              | 53.26 %                  |
| <b>Total Planillas Recibidas</b>            | <b>37,864</b>       | <b>\$302,652,457.11</b>  |
| <b>Pagos de Estimada 2014</b>               |                     | <b>\$233,024,584.72</b>  |
| <b>Total Recaudos</b>                       |                     | <b>\$535,677,041.83</b>  |

Note: PDF delivered by IRA

c. Tax Returns Enumerated by Type of Return

INFORME DIARIO DE PLANILLAS DE INDIVIDUOS ENUMERADAS  
PROCESO 2013

Sección: Clasificación y Numeración

Encargado de Recopilación: Carlos M. Clavell Rivera

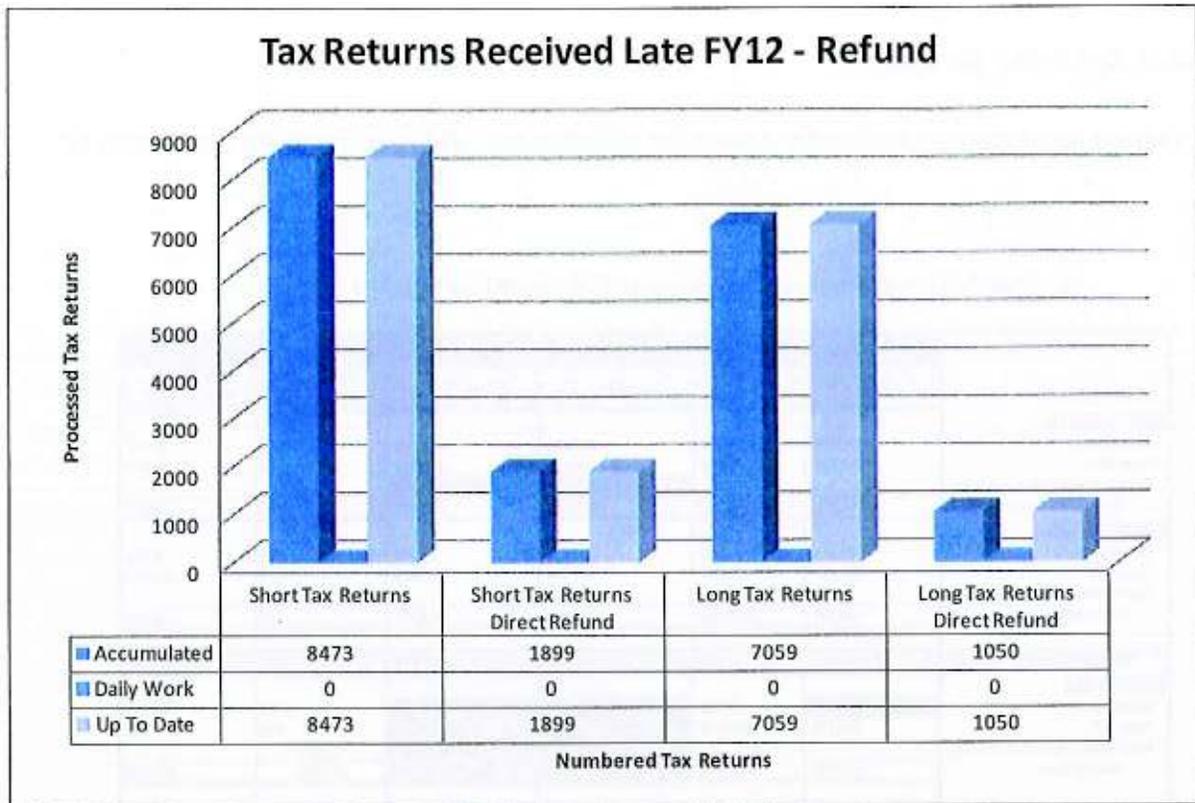
Revisado por Supervisor: Grisel Marrero Solís

Fecha: 23/Diciembre/2013

| Planilla Enumerada                                 | Acumulado | Trabajado Diario | AJ Presente |
|--|-----------|------------------|-------------|
| <b>Planilla 2012-2012</b>                          |           |                  |             |
| Planilla 2012-2012                                 |           |                  | 0           |
| Subtotal   | 0         | 0                | 0           |
| <b>CREDITO \$ AÑO CONT. 2012</b>                   |           |                  |             |
| Reintegro a Tiempo                                 | 230775    |                  | 230775      |
| Reintegro Tarde                                    |           |                  | 0           |
| Subtotal   | 230775    | 0                | 230775      |
| <b>CORTAS AÑO CONT. 2012</b>                       |           |                  |             |
| Reintegro  | 183077    |                  | 183077      |
| Deposito Directo Reintegro                         | 45735     |                  | 45735       |
| Vencidas   | 10576     |                  | 10576       |
| Diferidas  | 11222     |                  | 11222       |
| Otras  | 38583     |                  | 38583       |
| Subtotal   | 289193    | 0                | 289193      |
| <b>LARGA \$ AÑO CONT. 2012</b>                     |           |                  |             |
| Reintegro  | 81596     |                  | 81596       |
| Deposito Directo Reintegro                         | 19380     |                  | 19380       |
| Vencidas   | 5944      |                  | 5944        |
| Diferidas  | 5331      |                  | 5331        |
| Otras  | 76366     |                  | 76366       |
| Subtotal   | 188617    | 0                | 188617      |
| TOTAL  | 477810    | 0                | 477810      |
| <b>RADICADA \$ TARDE AÑO CONT. 2012- REINTEGRO</b> |           |                  |             |
| Cortas Reintegro                                   | 8473      |                  | 8473        |
| Cortas Deposito Directo Reintegro                  | 1899      |                  | 1899        |
| Largas Reintegro                                   | 7059      |                  | 7059        |
| Largas Deposito Directo Reintegro                  | 1050      |                  | 1050        |
| Subtotal   | 18481     | 0                | 18481       |
| TOTAL a Tiempo y Tarde 2012                        | 496291    | 0                | 496291      |
| <b>PRORROGA \$</b>                                 |           |                  |             |
| Prórroga de Individuo 2012 (Automáticas)           | 18727     |                  | 18727       |
| Prórroga de Individuo 2012 (Adicionales)           | 348       |                  | 348         |
| Prórroga Internet 2012                             |           |                  |             |
| Prórroga de Individuo Año Anterior                 | 24        |                  | 24          |
| Subtotal   | 19099     | 0                | 19099       |

Note: PDF delivered by IRA

d. Tax Returns Received Late that resulted in Refunds (FY2012)



### 3.5.2 Processing

#### 3.5.2.1 Management Reports List

Currently, IRA produces the following Management Reports related to its work for Calculating Contributions:

- Tax Returns Calculated by Type of Return
- Yearly Comparison of Tax Returns Calculated by Type of Return

#### 3.5.2.2 Tax Administration Measurement

IRA's current Critical Success Factors for Calculation are:

- Assure the veracity and integrity of the information required to calculate the contribution
- Calculate the contribution effectively and efficiently

### 3.5.2.3 Analytics Baseline

The current performance baseline for calculating contributions, IRA monitors in its Scorecards, is:

#### a. Yearly Comparison of Tax Returns Calculated by Type of Return

|                                     | DETALLE PARA RENTAS INTERNAS |                  |                  |                  |                       |                            |
|-------------------------------------|------------------------------|------------------|------------------|------------------|-----------------------|----------------------------|
|                                     | 2012                         | 2011             | 2010             | 2009             | Cambio %<br>2012-2011 | Diferencia<br>2012 vs 2011 |
| <b>FORMA CORTA</b>                  |                              |                  |                  |                  |                       |                            |
| Electrónicas                        | 475,884                      | 449,747          | 230,683          | 66,329           | 6%                    | 26,137                     |
| Papel NPP                           | 289,193                      | 295,768          | 286,756          | 450,810          | -2%                   | (6,575)                    |
| Papel Correo (pend a procesar)      |                              |                  |                  |                  |                       | -                          |
| <b>Total Forma Corta</b>            | <b>765,077</b>               | <b>745,515</b>   | <b>517,439</b>   | <b>517,139</b>   | <b>3%</b>             | <b>19,562</b>              |
| <b>FORMA LARGA</b>                  |                              |                  |                  |                  |                       |                            |
| Electrónicas                        | 81,315                       | 73,243           | 170,624          | 39,243           | 11%                   | 8,072                      |
| Papel NPP                           | 188,617                      | 205,072          | 320,798          | 453,523          | -8%                   | (16,455)                   |
| Papel Correo (pend a procesar)      |                              |                  |                  |                  |                       | -                          |
| <b>Total Forma Larga</b>            | <b>269,932</b>               | <b>278,315</b>   | <b>491,422</b>   | <b>492,766</b>   | <b>-3%</b>            | <b>(8,383)</b>             |
| <b>Subtotal Cortas &amp; Largas</b> | <b>1,035,009</b>             | <b>1,023,830</b> | <b>1,008,861</b> | <b>1,009,905</b> | <b>1%</b>             | <b>11,179</b>              |
| <b>SENIORS 65+</b>                  |                              |                  |                  |                  |                       |                            |
| Electrónicas                        |                              | 61,255           |                  |                  | -100%                 | (61,255)                   |
| Papel NPP                           | 230,775                      | 192,019          |                  |                  | 20%                   | 38,756                     |
| Papel Correo (pend a procesar)      |                              |                  |                  |                  | #DIV/0!               | -                          |
| <b>Total Seniors</b>                | <b>230,775</b>               | <b>253,274</b>   |                  |                  | #DIV/0!               | <b>(22,499)</b>            |
| <b>TOTAL C&amp;L + SENIORS</b>      | <b>1,265,784</b>             | <b>1,277,104</b> | <b>1,008,861</b> | <b>1,009,905</b> | <b>-1%</b>            | <b>(11,320)</b>            |

Note: PDF delivered by IRA

### 3.5.3 Collections

#### 3.5.3.1 Management Reports List

Currently, IRA produces the following Management Reports related to its work collecting contributions:

- Monthly Collections per District
- Monthly Amount of Property and Fitment Seizures per District
- Year to Date Comparison of Collections per District
- Amount of Approved Payment Plants for Current Debt

#### 3.5.3.2 Tax Administration Measurement

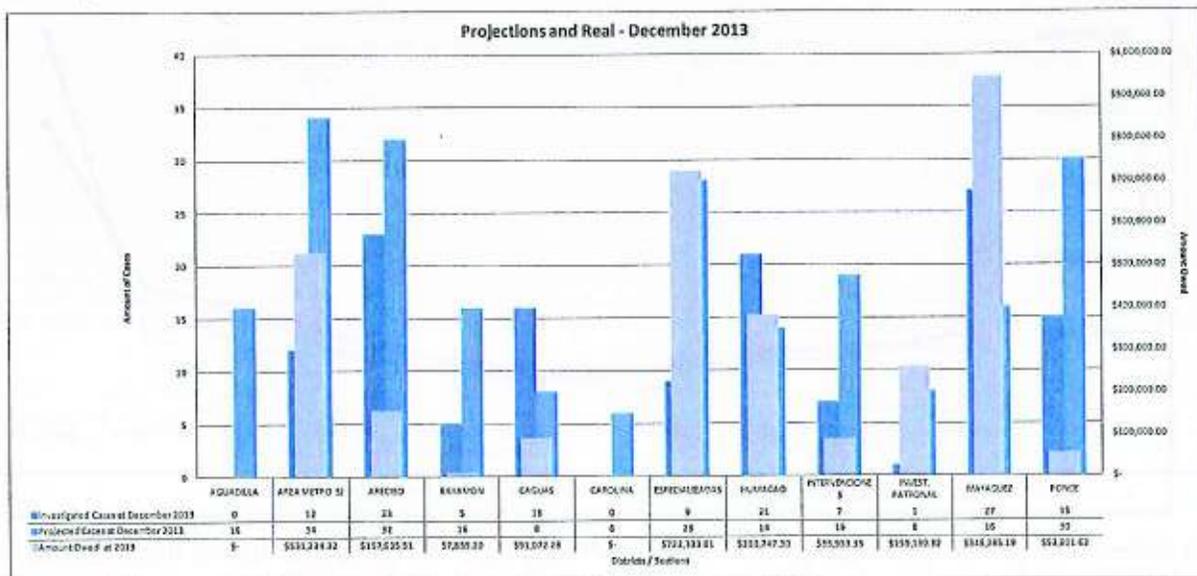
IRA confirmed that the Critical Success Factors it measures for Tax Administration are:

- Collect the contributions effectively and efficiently
- Manage required actions or sanctions to collect pending contributions

#### 3.5.3.3 Analytics Baseline

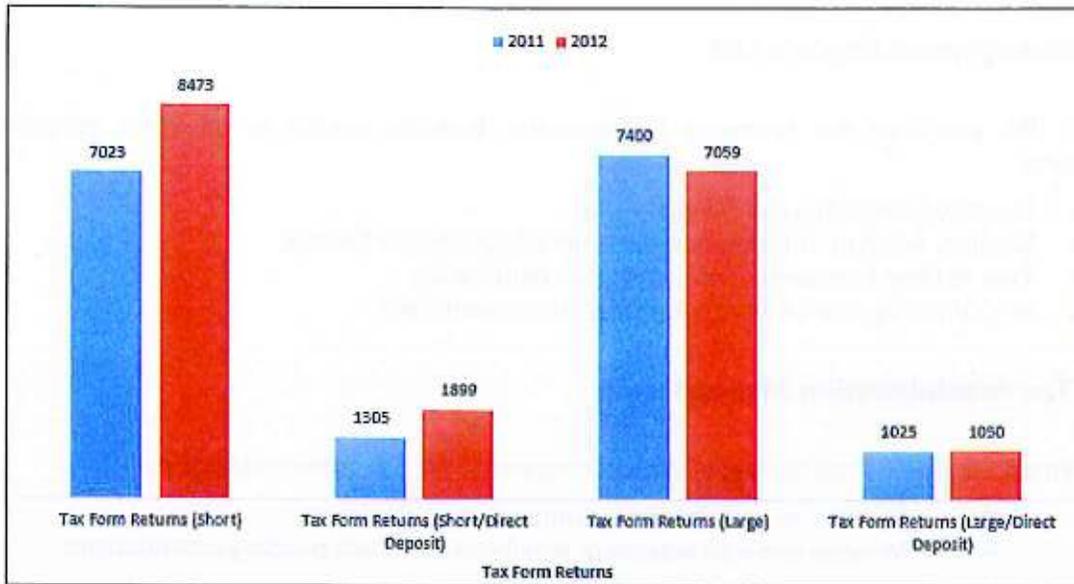
The current performance baseline for collecting contributions and managing required actions or sanctions, IRA monitors in its Scorecards, is:

##### a) Projections and Achievements



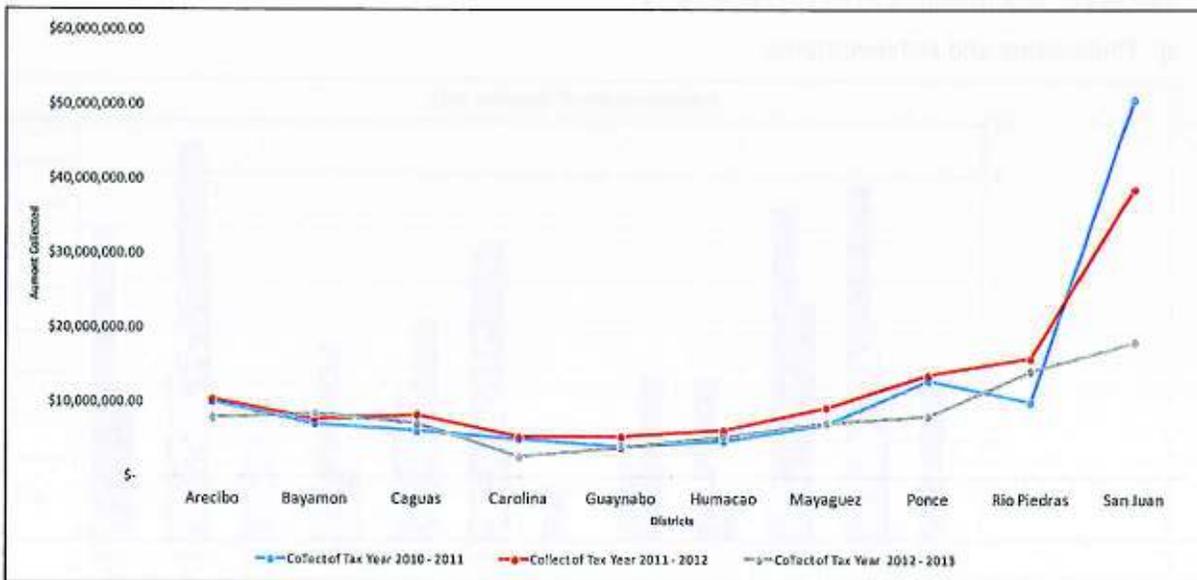
According to the data collected by the Processing Bureau, 85% of the goal establish for 2013 was achieved. This goal was \$ 3,796,890.00.

b) Tax Returns Submitted Late for Refunds (Compared by Fiscal Year)



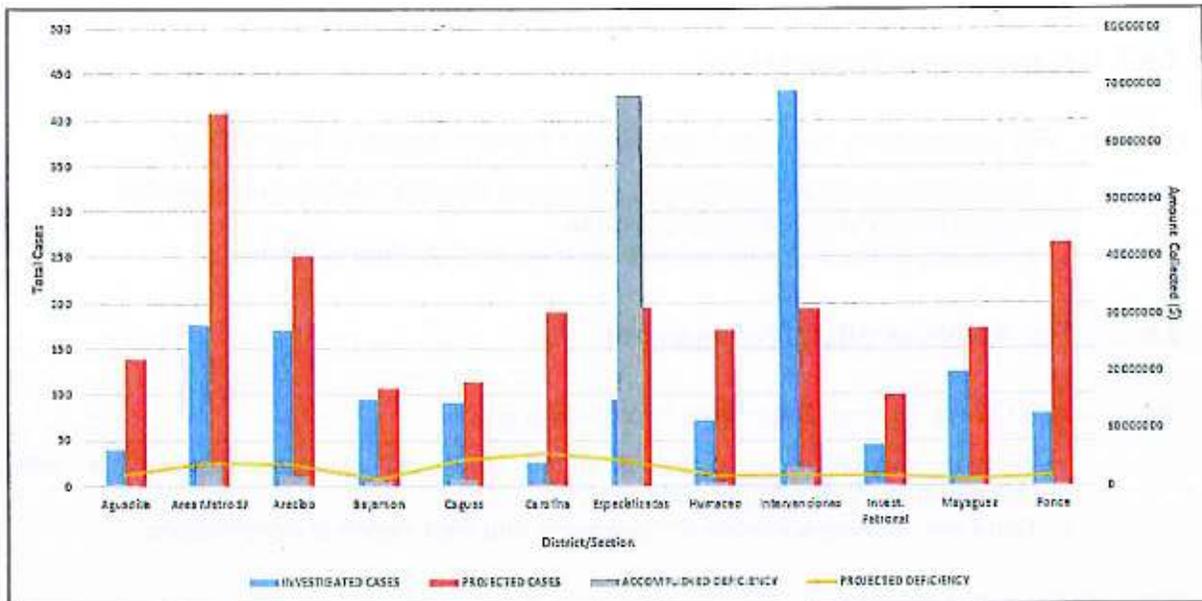
According to the data collected by the Processing Bureau, the late submission of the tax filing forms has increased from 2011 to 2012 by 9%.

c) Tax Collected from 2010 to 2013



The collections for the fiscal period 2012-2013 decrease by 31% compared to the fiscal period 2011-2012 and also decreased by 29% compared to the fiscal period 2010-2011.

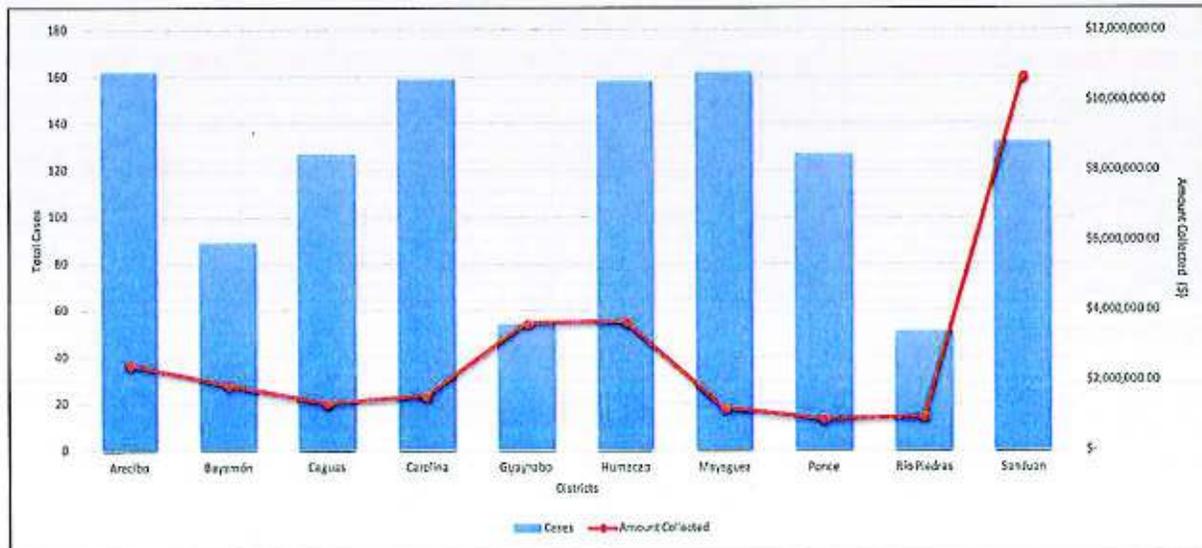
a) Goals and Achievements - until March 2014



According to the data collected by The Processing Bureau for current period 2014, the following districts have complied 100% with the projected deficiency: Mayaguez, San Juan Metro Area, Specialized Section and Interventions Section.

On other hand, the total cases projected for 2014 period, amount to 2,305 of which 63% has been reached at March 2014.

d) Seizure Report



### 3.5.4 Fiscal Audit

#### 3.5.4.1 Management Reports List

Currently, IRA produces the following Management Reports related to Fiscal Audits:

- Audits Executed by Inspector by District and Pending Contribution Collected
- Projection of Audits and Real Execution
- Summary of Audits Executed and Contribution Collected by District

#### 3.5.4.2 Tax Administration Management

IRA's current Critical Success Factors for Fiscal Audits are:

- Perform efficient and effective audits or investigations to prevent or detect inappropriate or missing contributions
- Carry out corrective actions for taxpayers that filed incorrect contributions

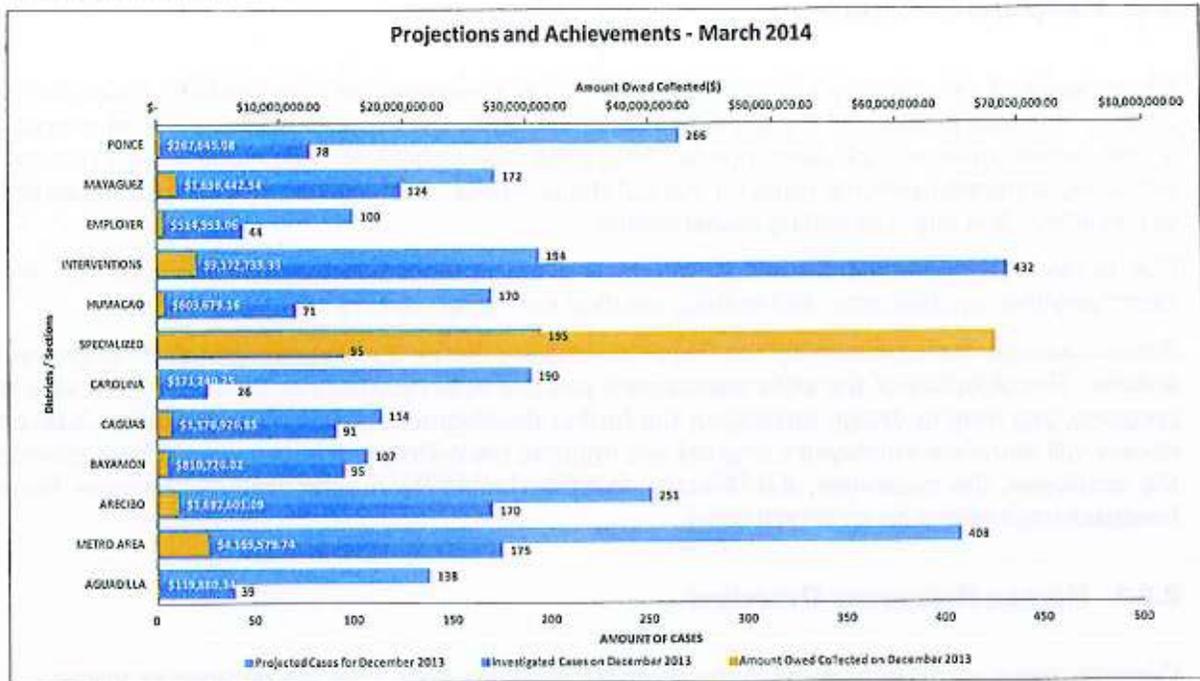
#### 3.5.4.3 Analytics Baseline

##### a. Audits Executed by Inspector by District and Pending Contribution Collected

| NOMBRE DEL INSPECTOR          | DISTRITO      | COBRADA<br>CON<br>INT. Y PEN. | TASADA<br>CON<br>INT. Y PEN. | REQUERIMIENTO<br>CON<br>INT. Y PEN. | OBJETADA<br>CON<br>INT. Y PEN. | REINTEGRO<br>DISMINUIDO | TOTAL DE<br>DEFICIENCIA |
|-------------------------------|---------------|-------------------------------|------------------------------|-------------------------------------|--------------------------------|-------------------------|-------------------------|
| ALVAREZ FELICIANO, AXEL R.    | AGUADILLA     | -                             | 4,641.56                     | -                                   | -                              | -                       | 4,641.56                |
| CARDAS CHAPARRO, FREDDIE A.   | AGUADILLA     | 2,437.00                      | -                            | -                                   | -                              | -                       | 2,437.00                |
| MORALES NEVES, ANGEL D.       | AGUADILLA     | -                             | -                            | -                                   | -                              | 9,296.94                | 9,296.94                |
| MORALES RIVERA, KENYLA        | AGUADILLA     | -                             | -                            | -                                   | -                              | -                       | -                       |
| PÉREZ TRULLO, SANTIAGO        | AGUADILLA     | -                             | -                            | -                                   | -                              | -                       | -                       |
| RIVERA RAMÍREZ, YARIEL N.     | AGUADILLA     | -                             | 16,307.36                    | -                                   | -                              | -                       | 16,307.36               |
| RODRIGUEZ CARABALLO, EDNA     | AGUADILLA     | 9,766.10                      | -                            | -                                   | -                              | -                       | 9,766.10                |
| SAMVEDRA CALERO, ZENA         | AGUADILLA     | -                             | 2,377.37                     | -                                   | -                              | -                       | 2,377.37                |
| <b>SUB-TOTAL</b>              |               | <b>12,203.10</b>              | <b>23,326.29</b>             | <b>-</b>                            | <b>-</b>                       | <b>9,296.94</b>         | <b>44,826.33</b>        |
| BÁEZ PÉREZ, JOSÉ G.           | AREA METRO SJ | -                             | -                            | -                                   | -                              | -                       | -                       |
| BETANCOURT SOSA, MARIAT.      | AREA METRO SJ | -                             | -                            | -                                   | -                              | -                       | -                       |
| BURGOS GUTIERREZ, ELIZABETH   | AREA METRO SJ | -                             | -                            | -                                   | -                              | 3,015.00                | 3,015.00                |
| CALDERÓN RAMOS, PEDRO L.      | AREA METRO SJ | -                             | -                            | -                                   | -                              | -                       | -                       |
| CASANO PARRILLA, CARLOS       | AREA METRO SJ | -                             | -                            | -                                   | -                              | -                       | -                       |
| COTTO JIMÉNEZ, ALEJANDRO      | AREA METRO SJ | 822,767.00                    | -                            | -                                   | -                              | -                       | 822,767.00              |
| CRUZ QUEPO, ROBERTO           | AREA METRO SJ | -                             | -                            | -                                   | -                              | 65,416.00               | 65,416.00               |
| FLORES VEGA, JEANNETTE        | AREA METRO SJ | -                             | -                            | -                                   | -                              | -                       | -                       |
| GÓMEZ BETANCOURT, ROBERT      | AREA METRO SJ | -                             | -                            | -                                   | -                              | 83,920.00               | 83,920.00               |
| HERNÁNDEZ GARCÍA, LOURDES     | AREA METRO SJ | -                             | -                            | -                                   | -                              | -                       | -                       |
| MARTÍNEZ FIGUEROA, HÉCTOR     | AREA METRO SJ | -                             | -                            | -                                   | -                              | -                       | -                       |
| MARTÍNEZ ORTIZ, NOELIA        | AREA METRO SJ | -                             | -                            | -                                   | -                              | 2,820.00                | 2,820.00                |
| MONTAÑEZ HERNÁNDEZ, CARLOS A. | AREA METRO SJ | -                             | -                            | -                                   | -                              | -                       | -                       |
| MONTAÑEZ OLIVEROS, LOREN      | AREA METRO SJ | -                             | -                            | -                                   | -                              | -                       | -                       |
| MUREL MORALES, LESSIA J.      | AREA METRO SJ | -                             | -                            | -                                   | -                              | -                       | -                       |

Note: PDF delivered by IRA

b. Projection of Audits and Real Execution



c. Summary of Audits Executed and Contribution Collected by District

**RESUMEN DE LA LABOR REALIZADA  
MARZO 2014**

| DISTRITO       | CASOS PAGADOS | DEFICIENCIA PAGADA | CASOS TASADOS | DEFICIENCIA TASADA | CASOS NOTIFICADOS | DEFICIENCIA NOTIFICADA | CASOS EXENTOS | CASOS REINTEGROS | RECL. ARBITRIOS | REINTEGRO DISMINUIDO | TOTAL CASOS | TOTAL DEFICIENCIA   |
|----------------|---------------|--------------------|---------------|--------------------|-------------------|------------------------|---------------|------------------|-----------------|----------------------|-------------|---------------------|
| AGUADILLA      | 0             | -                  | 0             | -                  | 0                 | -                      | 0             | 0                | 0               | -                    | 0           | -                   |
| AREA METRO SJ  | 21            | 80,567.55          | 2             | 554,056.00         | 1                 | 227,332.00             | 0             | 1                | 0               | 304,570.00           | 25          | 1,166,525.55        |
| ARECIBO        | 0             | -                  | 19            | 208,965.34         | 0                 | -                      | 5             | 0                | 0               | -                    | 24          | 208,965.34          |
| BAYAMON        | 0             | -                  | 0             | -                  | 1                 | 13,494.00              | 3             | 0                | 7               | 19,941.33            | 11          | 33,435.33           |
| CAGUAS         | 3             | 9,900.00           | 1             | 19,715.00          | 1                 | 6,178.00               | 7             | 0                | 2               | 7,828.42             | 14          | 43,621.42           |
| CAROLINA       | 0             | -                  | 0             | -                  | 0                 | -                      | 0             | 0                | 0               | -                    | 0           | -                   |
| ESPECIALIZADAS | 1             | 605,379.03         | 0             | -                  | 0                 | -                      | 1             | 0                | 6               | -                    | 8           | 605,379.03          |
| HUMACAO        | 3             | 23,266.00          | 1             | 12,488.00          | 1                 | 40,009.00              | 6             | 3                | 0               | 11,473.00            | 14          | 87,236.00           |
| INTERVENCIONES | 0             | -                  | 0             | -                  | 323               | 1,386,551.00           | 0             | 7                | 0               | 52,458.00            | 330         | 1,439,009.00        |
| INV. PATRONAL  | 0             | -                  | 0             | -                  | 0                 | -                      | 2             | 0                | 0               | -                    | 2           | -                   |
| MAYAGUEZ       | 11            | 50,259.63          | 3             | 45,433.17          | 0                 | -                      | 5             | 0                | 1               | -                    | 20          | 95,692.80           |
| PONCE          | 1             | 4,089.00           | 0             | -                  | 0                 | -                      | 5             | 0                | 0               | -                    | 6           | 4,089.00            |
| <b>TOTAL</b>   | <b>40</b>     | <b>773,461.21</b>  | <b>26</b>     | <b>838,657.51</b>  | <b>327</b>        | <b>1,673,564.00</b>    | <b>34</b>     | <b>11</b>        | <b>16</b>       | <b>396,270.75</b>    | <b>454</b>  | <b>3,681,953.47</b> |

Note: PDF delivered by IRA

## 3.6 People and Skills

The purpose of this section is to provide a high level assessment of the positions that currently perform the core processes of the Internal Revenue Area. The analysis provides a brief overview of the current roles and job descriptions and a skills assessment to understand the current staff skill level, compared with the required skills of the positions. This will identify the skills constraints to consider in the target operating model design.

Due to the implementation of the Tax Reform, it is advantageous to assess the employees' skills identifying their weaknesses, and thereby creating a development plan to improve them.

Periodic assessments would help the Department gain a better understanding of each employee's abilities. The objective of the skills assessment process is to recognize achievement, evaluate job progress, and then to design training for the further development of skills and strengths. A careful review will stimulate employee's interest and improve job performance. The assessment provides the employee, the supervisor, the Director, and the Human Resources Area an objective, formal feedback mechanism on an annual basis.

### 3.6.1 Human Resources Overview

Currently there are 10 employees in the Human Resources Area. They are grouped as follow:

- One (1) Labor Affairs Director
- One (1) Labor Affairs Clerk
- One (1) HR Assistant Secretary
- Two (2) in Recruitment Section
- Two (2) in Appointment Section
- Two (2) in Classification Section
- One (1) Office Receptionist

- **Hiring and Recruitment:** The Hiring and Recruitment process starts when an Area or Bureau reports the need to fill a vacancy. HR Area then posts the general information about the position on: <http://www.hacienda.gobierno.pr/convocatorias/index.html>, for external and internal interest. Also, the vacancies are published on bulletin boards and on the Government Agency websites. The job post has to be posted for 10 days according to the HR policies and procedures, however, these positions are posted for more than 10 days in order to get more potential candidates.

For each vacancy, the HR Area has to interview ten (10) candidates according to the Department's policies.

The hiring and recruitment process takes about three (3) months per candidate. For each interview, an HR representative has to be present in order to ensure the transparency and smooth execution of the complete process.

- **Job Promotions:** To promote employees, HR policies proscribe that the employee has to be working one (1) year for the Department. The employee's Supervisor must submit a request for promotion and assess the employee through a Performance Evaluation. Also, there is a review and appraisal from the HR Area. Once all the requirements are completed, the HR Area has to give the final approval.

- **Salary & Job Classification:** The Salary & Job Classification were last updated in 1996. The HR Area has selected a consultant company to update and redesign the Salary and Job Classification. The project has been put on hold due to budgeting and fiscal issues, but must be implemented no later than 2015 under recently negotiated collective bargaining agreements.
- **Succession Plan:** Currently there is no applicable Succession Plan within the Department. In previous interviews within the Internal Revenue Area, KPMG has identified no knowledge transferring process. Also, on some core positions there is only one employee performing those duties or activities.
- **Performance Evaluation:** Employees are assessed a probationary period once they are hired. New employee performance evaluations are performed on the date in which the employee reaches one year of fulltime Department employment. The performance evaluations are based on each Bureau's objectives and its results are taken in consideration for an employee's future promotion.
- **Staffing outsourcing:** Based on interviews with the HR Area team, the expenses paid for professional services to KELLY Services and Caribbean Temporary Services (CTS) reaches up to USD10.0m per year. Kelly and CTS are external consultants that recruit and hire some of the operational positions, including some core positions for the Internal Revenue Area. These employees are paid by the external company and are assessed by their Department Supervisor.

Based on interviews with the Internal Revenue team, the large number of interim appointments to leadership roles can be attributed to the growing number of Department vacancies. Additionally, some Supervising positions remain unfilled for issues related to political matters.

The "Team Leader" role is a common, but unofficial term by the Internal Revenue Area. The Team Leader position has not been reviewed and approved by the HR Area. This role is commonly referred to as an "Acting" Supervisor within different Bureaus of the Internal Revenue Area.

- **Training:** The Department's Training Academy provides an introductory course for all the new hires. Currently, the HR Area has developed and established, with the support of all the Directors and Supervisors, a Supervisor Training Academy Plan up to 2016. This Training Plan includes topics such as: Skills Development, Managerial Development, Project Management, and Organizational Topics. The Training Plan also includes the required training hours needed and the possible trainers/providers. Also, according to the Department's policies each employee has to perform 20 hours of ethical and moral course every two (2) years.
- **Benefit:** Employees from the Commonwealth of Puerto Rico receive attractive benefits compared to the private sector. The common benefits include: thirty (30) days of vacation time, eighteen (18) days of sickness leave, Christmas Bonus of 1200 USD, Medical & Hospitalization Insurance, Daycare Center, Holidays, Retirement Plan, Employee Associations with a savings program, Services Discount, credit cards and loans with competitive interest rates. Additionally, only the Collector position, under Law 95, can achieve a Collection Bonus.

- **Human Resources KPI's:** Currently, the HR Area has not identified KPI's and CSF's in order to evaluate its success, or to evaluate the success of a particular activity in which it is engaged. According to interviews with the HR Area team, they are including to start measuring KPI's on their HR Strategic Plan for the upcoming 2015 fiscal year. However, the HR Area team has at their disposal reports such as: headcounts, labor case management and hiring process.

### 3.6.2 High Level Role and Job Descriptions

This section provides a brief description of the main functions of each role performing the processes mentioned on section 3.1. For more detail on the role and jobs descriptions, the reader is referred to the deliverable 3-04 Current Roles and Job Description Assessment Report.

The roles are described as follows:

- **Director:** Role that is responsible for a Bureau of Internal Revenue Area.
- **Chiefs of Divisions:** Role that is in charge of a Division, coordinating and supervising the activities performed by the different sections beneath its Division and in some cases, district offices.
- **Supervisor:** Role that is in charge of a Section, coordinating activities, distributing workload, ensuring the quality of the work performed, and making some administrative decisions.
- **Operational:** Staff performing daily duties that are essential for process compliance.

| Process                  | Bureau     | Section/ Office    | Position           | Role       | Main function  |
|--------------------------|------------|--------------------|--------------------|------------|--|
| Submission & Calculation | Processing | Director's Office  | Bureau Director    | Director   | Leads and develops departmental policies. Plans and coordinates the overall operation of the Bureau, in collaboration with the other Bureau Directors. Leads, manages and evaluates the performance of the sections in the bureau. Preliminary Review, Numbering, Data Entry (Index and Statistics), Data Correction, Accounts Management, Adjustment Management, Archive and Photocopies and Corporate Payment Application. |
| Submission               | Processing | Preliminary Review | Tax Technician III | Supervisor | Monitors the adequate reception, sorting, classification and filing of all tax return forms, prior to their processing.  |

| Process     | Bureau     | Section/ Office            | Position              | Role        | Main function   |
|-------------|------------|----------------------------|-----------------------|-------------|---|
| Submission  | Processing | Preliminary Review         | Processing Assistant  | Operational | Receives and sorts tax return forms in files. Requests code/number in system that will be used as identification for files. Distributes files to technicians and monitors their performance.                              |
| Submission  | Processing | Preliminary Review         | Tax Technician II     | Operational | Receives and reviews tax returns form and evidence submitted by taxpayers. Indicates objections and corrections to tax returns forms.   |
| Submission  | Processing | Numbering & Classification | Tax Technician IV     | Supervisor  | Receives and assigns a serial number to tax return forms, which will be used to track the document within the different units.  |
| Submission  | Processing | Numbering & Classification | Clerk II              | Operational | Enumerates tax filing forms in the required time, following the correct order. Verifies that the tax filing forms are numbered correctly and check for mistakes.  |
| Calculation | Processing | Data Entry                 | Data Entry Supervisor | Supervisor  | Supervises and coordinates the activities of the Data Entry Section. Keeps track of their performance and provides guidance. Performs administrative activities like following up on attendance and disciplinary actions. |
| Calculation | Processing | Data Entry                 | Data Entry Operator   | Operational | Processes Tax filing form of individuals, corporations and quarterly in a precise manner and keeping mistakes to a minimum. Processes biographic and statistics data of the tax filing forms.                             |
| Calculation | Processing | Corporate Payment          | Tax Technician V      | Supervisor  | Supervises and coordinates the staff from the section in order to ensure  |

| Process     | Bureau      | Section/ Office                         | Position                 | Role        | Main function  |
|-------------|-------------|---|--------------------------|-------------|--|
|             |             | Application                             |                          |             | the fulfillment of the team objectives which is to make the necessary adjustment on corporate tax filing forms and to ensure the compliance of the Fiscal Code.                              |
| Calculation | Processing  | Data Correction                         | Administrative Officer V | Supervisor  | Coordinates and supervises the activities of the Data Correction section that involve the correction of mathematical errors (E60) and missing information of the processed tax filing forms. |
| Calculation | Processing  | Account Administration                  | Administrative Officer V | Supervisor  | Supervises and coordinates activities related to tax filing form with missing information and provide services to taxpayer.  |
| Calculation | Processing  | Account Administration                  | Data Entry Operator II   | Operational | Adjusts the tax form once the missing information is presented.  |
| Calculation | Processing  | Account Administration                  | Tax Technician II        | Operational | Analyzes the information presented by the taxpayer versus the information on the tax form.   |
| Calculation | Processing  | Adjustment Administration & Requirement | Executive Officer I      | Supervisor  | Supervises and coordinates the activities related to changes on the tax filing form related to income, exemptions, deductions or credits.  |
| Calculation | Processing  | Archive & Photocopy                     | Tax Technician IV        | Supervisor  | Maintains the proper order and control of the archived tax filing forms that are received and deliver the required photocopies to the agencies that request them in a timely manner.         |
| Collections | Collections | Director's Office                       | Bureau Director          | Director    | Manages Operational and Administrative Bureau. Establishes policies and methods to force collection and that way increase the  |

| Process     | Bureau      | Section/ Office                     | Position                 | Role              | Main function  |
|-------------|-------------|-------------------------------------|--------------------------|-------------------|--|
| Collections | Collections | Compliance and Collections Division | Executive Officer III    | Chief of Division | revenues. Studies, recommends and advises the Secretary of the Treasury on bills aimed at implementing, amending or repealing laws relating to the operation of the Bureau.<br>Plans, manages, evaluates and supervises the offices and divisions under its management, this includes the Collections offices that are located on other districts. Also, ensures the correct procedures are followed in order to achieve the Bureau's main objective, which is the collection of delinquent debts. |
| Collections | Collections | Collections Districts               | Tax Technician IV        | Supervisor        | Supervises the district office operations and ensures the office's objective is achieved, which is to collect the delinquent debts of the assigned district.   |
| Collections | Collections | Collections Districts               | Tax Technician II        | Operational       | Performs the collecting duties of delinquent debts on the assigned district. Contacts taxpayers via mail, telephone or in person. Develops payment plans and completes the Financial State Situation forms.  |
| Collections | Collections | Salary Discount and Analysis        | Administrative Officer V | Supervisor        | Coordinates and manages the operations to ensure the tax collection of government employees' through salary discount and analysis.   |
| Collections | Collections | Bankruptcy                          | Tax Specialist II        | Supervisor        | Supervises and coordinates the activities of the Bankruptcy Section, in order to ensure the analysis of the delinquent debts that are currently under Bankruptcy law. Classifies and   |

| Process     | Bureau          | Section/ Office             | Position                   | Role                         | Main function   |
|-------------|-----------------|-----------------------------|----------------------------|------------------------------|---|
| Collections | Collections     | Collection Centers Division | Executive Officer IV       | Chief of Division            | distributes cases among the Bankruptcy Section Staff and follows up on the progress of the cases.<br>Monitors all activities related to Collection Centers. Identifies improvement opportunities, manages changes and communicates to all Collection Divisions. |
| Collections | Collections     | Payment Applications        | Collection Assistant IV    | Supervisor                   | Receives and distributes workloads of payments received. Monitors the adequate application of payments.   |
| Enforcement | Consumption Tax | Director's Office           | Bureau Director            | Director                     | Plans, coordinates and supervises the functions related to the implementation, administration, monitoring and enforcement of the Internal Revenue Code. Regulates the adequate collection of the Sales and Use Tax (SUT) and that the licenses are up to date.  |
| Enforcement | Consumption Tax | Director's Office           | Tax Technician V           | Operational                  | Process taxations and sanctions for excise, sales and use tax and alcoholic beverages.  |
| Enforcement | Consumption Tax | Compliance Division         | Internal Revenue Agent VII | Chief of Compliance Division | Supervises and coordinates the investigations of the Internal Revenue Districts offices and the Alcoholic Beverages and Licenses Office. Assists on cases that cannot be solved by the District Offices.  |
| Enforcement | Consumption Tax | District Office             | Internal Revenue Agent VI  | Supervisor                   | Coordinates and supervises the inspection of the incoming merchandise, according to the assigned District. Coordinates visits to the taxpayers and follow up on the Internal Revenue Agents inspections.  |

| Process     | Bureau          | Section/ Office                   | Position                   | Role              | Main function  |
|-------------|-----------------|-----------------------------------|----------------------------|-------------------|--|
| Enforcement | Consumption Tax | Taxation Section                  | Internal Revenue Agent III | Supervisor        | Supervises and coordinates the activities of the Taxation section, especially on cases that involve merchandise excise and exemptions. Provides guidance on cases that involve complex analysis.   |
| Enforcement | Fiscal Audit    | Director's Office                 | Bureau Director            | Director          | Directs, coordinates, plans and oversees the functions, techniques and administrative activities of the Bureau of Fiscal Audit. From a control perspective, monitors the filing of returns by taxpayers, but also the required payments such as forms comply with the provisions laid down by law. Also advises the Secretary of the Treasury and the Assistant Secretary of Internal Revenue on fiscal audit, and in relation to the public policy to be established. |
| Enforcement | Fiscal Audit    | Investigation Division            | Tax Affairs Executive I    | Chief of Division | Supervises and coordinates the Fiscal Audit Districts. Distributes cases among the Districts; compiles the solved cases and coordinates with other bureaus if necessary for further processes required.  |
| Enforcement | Fiscal Audit    | Investigate Cases Review Division | Tax Specialist VI          | Chief of Division | Supervises and coordinates the activities of the division in order to ensure that the assigned cases are managed until full resolution. Ensures the fulfillment of the Division objective which is to resolve the cases that are referred from the Fiscal Audits Districts for final review.   |
| Taxpayer    | Taxpayer        | Service                           | Bureau                     | Director          | Directs, coordinates, plans and  |

| Process           | Bureau                                       | Section/ Office                                   | Position                  | Role              | Main function   |
|-------------------|--|---|---------------------------|-------------------|---|
| Services          | Services                                     | Centers   | Director                  |                   | oversees administrative functions and activities of the Bureau, which develop through the Call Center and Correspondence, and Service Centers located in the municipalities. Advises the secretary of Treasury and the Internal Revenue Assistant Secretary regarding public policy, bills, and cases of high complexity, among others. Develops procedures and standards related to the action plan of the areas under their responsibility guidelines. Ensures quality of service provided by their Bureau. |
| Taxpayer Services | Taxpayer Services                            | Service Centers                                   | Tax Technician I          | Supervisor        | Receives, evaluates and responds to requests or consults from taxpayers.  |
| Taxpayer Services | Taxpayer Services                            | Service Centers                                   | Clerk I                   | Operational       | Receives, evaluates and responds to basic requests or consults from taxpayers. Refers cases to Tax Technicians if necessary to perform deep analysis.   |
| Taxpayer Services | Taxpayer Assistance and Specialized Consults | Director's Office                                 | Tax Affairs Executive III | Director          | Plans, manages, and supervises all of the administrative and operational functions of the Bureau. Gives tax guidance to taxpayers, employees of the Treasury and other government agencies. Represents the Secretary of Internal Revenue in meetings on Capitol Hill, on legislative issues and other several topics.   |
| Taxpayer Services | Taxpayer Assistance and Specialized          | Administrative Opinions and Legislations Division | Tax Specialist V          | Chief of Division | Coordinates and supervises the activities of the Division, lead the team to accomplish its main objective which is to develop and evaluate  |

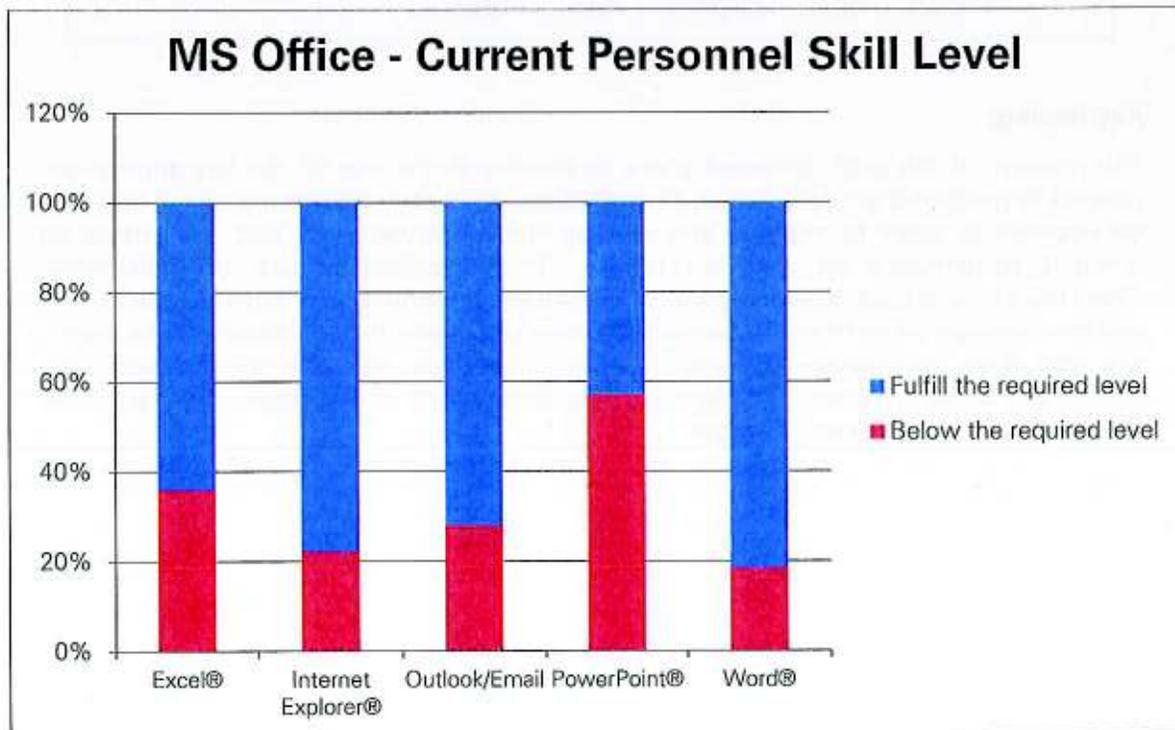
| Process           | Bureau                                       | Section/ Office                         | Position           | Role              | Main function   |
|-------------------|--|---|--------------------|-------------------|---|
|                   | Consults                                     |   |                    |                   | forms and publications that need to be used to implement Tax laws, amendment modifications or changes in Tax laws according to the Internal Revenue Code.   |
| Taxpayer Services | Taxpayer Assistance and Specialized Consults | Tax Exemptions Division                 | Tax Specialist III | Chief of Division | Supervises, coordinates and manages the daily activities performed by the division in order to ensure the accomplishment of the team's main objectives which is to analyze cases that involve Tax exemptions and nonprofit organizations. |
| Taxpayer Services | Taxpayer Assistance and Specialized Consults | Administrative Opinions and Legislation | Tax Specialist III | Operational       | Evaluates administrative decisions such as: Tax credits and special laws of the Internal Revenue Code and other legislation.  |

### 3.6.3 Skills Assessment

This section describes the results of the current staff skills level assessment. The analysis was performed using information provided by the Directors of the Bureau and takes into consideration the knowledge and skills required to perform roles. The skills that were assessed are the following:

| MS Office   | Key Applications   | Competencies   |
|---|--|--|
| <ul style="list-style-type: none"> <li>■ Excel®</li> <li>■ Internet Explorer®</li> <li>■ Outlook/Email</li> <li>■ PowerPoint®</li> <li>■ Word®</li> </ul> | <ul style="list-style-type: none"> <li>■ PRITAS</li> <li>■ REFO</li> <li>■ SECPRO</li> <li>■ F551</li> <li>■ N222</li> <li>■ CheckPoint</li> <li>■ LexisNexis</li> <li>■ Microjuris</li> <li>■ BNA Portfolios</li> </ul> | <ul style="list-style-type: none"> <li>■ Teamwork</li> <li>■ Flexibility</li> <li>■ Communications</li> <li>■ Service orientation</li> <li>■ Integrity</li> <li>■ Responsibility</li> <li>■ Creativity</li> <li>■ Orientation to details</li> <li>■ Decision making</li> </ul> |

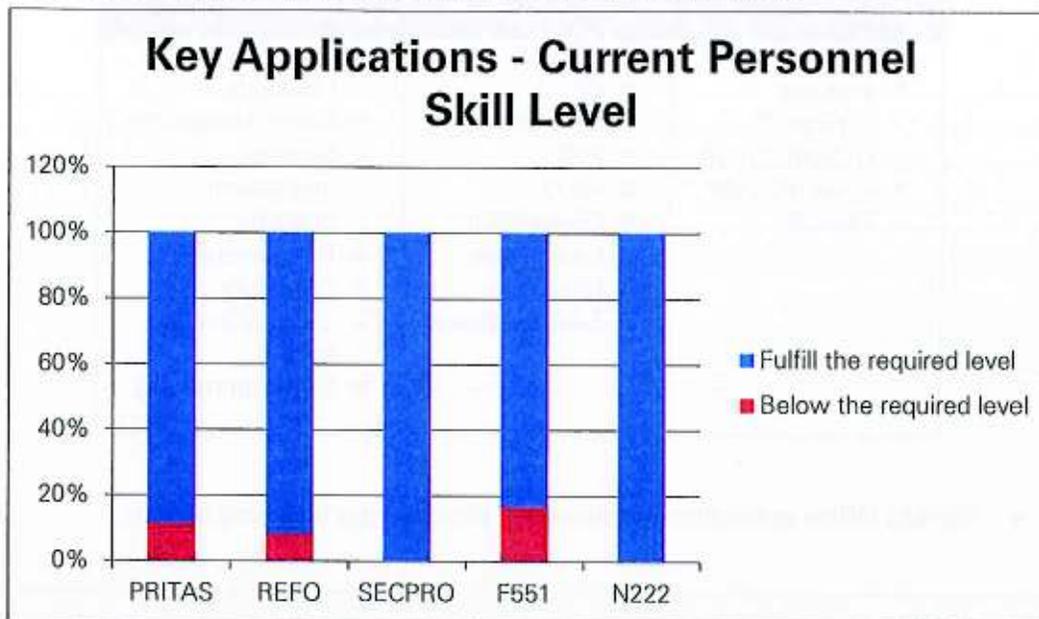
a. The MS Office applications assessment provided the following results:



**Key finding:**

35% percent of the Internal Revenue staff is below the required level of MS Excel. Also 57% are below the required level of PowerPoint, but this application is only used by a small group of employees.

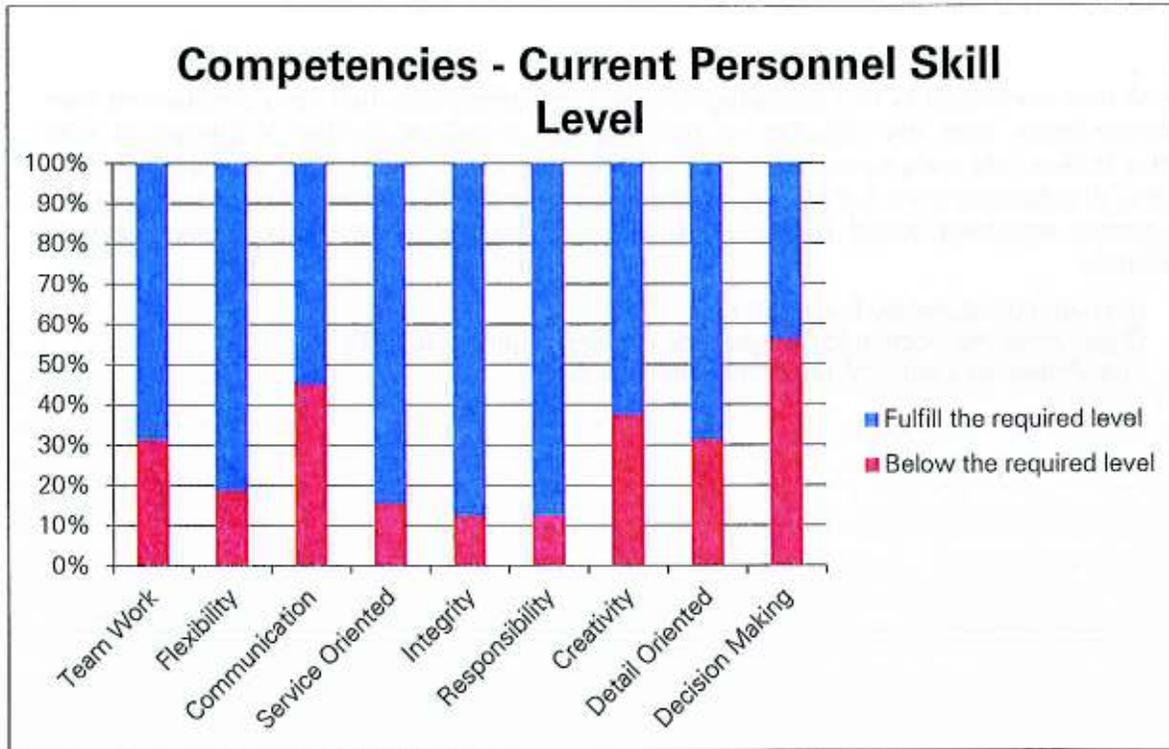
b. The Key Applications assessment provided the following results:



**Key finding:**

The majority of the staff assessed show proficiency in the use of the key applications needed to perform their daily duties. Nevertheless, there are others applications that may be acquired in order to improve and develop the employee skills that will ensure an efficient performance on assigned tasks. These applications are the followings: CheckPoint, LexisNexis, Microjuris and BNA Portfolios, useful for the Fiscal Audits Bureau and the Taxpayer Assistance & Specialized Consults Bureau. In the majority of the cases, the staff does not manage adequately these applications, because only the executive levels have access to them. Therefore, for any consultancy of information on them, they have to contact their Bureau Director.

c. The Competencies assessment provided the following results:



**Key finding:**

56% of the staff of Internal Revenue Area is below the required level in the Decision Making competency. This could be a consequence of the high percentage of staff currently occupying Interim Manager Positions and that unionized employees are not empowered to make administrative decisions.

Other findings are: 45% of the staff is below the required level of the Communication competency and 35% of the staff has not developed the Creativity competency.

## 4 Tax Administration Reference Models

Research was conducted to find Operating Models from jurisdictions that have transformed their tax administration with the objective of reducing the taxpayers' burden of interacting with Revenue Bodies and compliance with the corresponding tax acts or codes. Specific operating models of jurisdictions were not publicly available, however KMPG performed the Assessment of IRA's current operating model based on Models, Frameworks, Tools and common practices published by:

- International Monetary Fund (IMF)
- Organization for Economic Co-operation and Development (OECD)
- Inter-American Center of Tax Administrations (CIAT)

The International Monetary Fund (IMF) hosts the Tax Administration Diagnostic Assessment Tool (TADAT) Secretariat. TADAT is a means to obtain an objective and standardized assessment of the relative strengths and weaknesses of the administration of a country's tax system. It is an integrated monitoring framework that measures performance of a country's tax administration at a point in time. It is designed to provide objective and consistent assessments of the outcome performance across the essential tax administration functions. The tool addresses questions of "what" and "why" with respect to performance. The assessment report that is the output will have significant input into the reform objectives, design, sequencing, and prioritization of technical assistance (TA)<sup>1</sup>.



Figure 20. TADAT Indicator Set

IMF also defined a Framework for Tax Administration Model for a Tax Office with the objective of assessing the core components for tax administration. The Baseline follows from the model to help develop regional priorities; it helps target communications and common understanding across government, tax office and donors; donor requests for results-based management reporting; helps identify priorities and opportunities for cross-country support and assistance; repeated use of the baseline assessment can be used to show where improvements have been made; over time expect the base to be raised as countries strive for continuous improvement; may contribute to Government reform processes by determining the extent to which reforms improve performance.

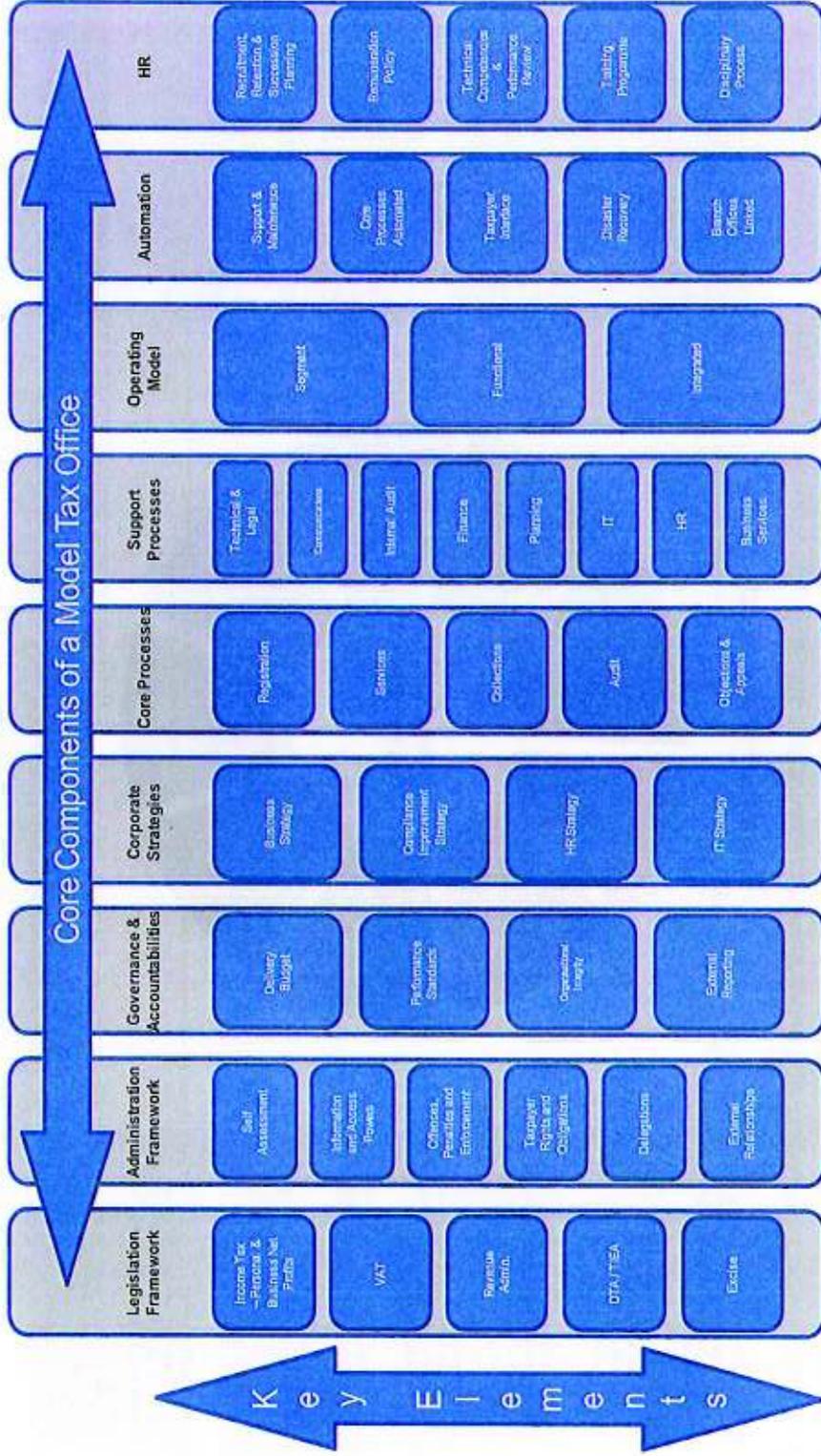


Figure 21. Model Tax Office Pacific Islands Tax Administrators Association



The OECD published its research Tax Administration 2013. The research offers a broad view of tax system administration in OECD and other countries. The series draws attention to the many developments and trends in operational performance. The main topics found in the research related to the operational components KPMG analyzed are:

| Operational Component                    | Topic  |
|--|--|
| <b>Services, Functions and Processes</b> | <ul style="list-style-type: none"> <li>■ The majority of countries (approximately 60%) have adopted the “unified semi-autonomous body” form of institutional setup. The revenue body is responsible for the administration of direct and indirect taxes</li> <li>■ Many revenue bodies decided to restructure their organizational arrangements, adopting a model based largely on “functional” principles:               <ul style="list-style-type: none"> <li>○ The “functional” organizational model: Under the functional model, staff are organized principally by functional groups (e.g. registration, accounting, information processing, audit, collection, appeals, etc.) and generally work across taxes.</li> <li>○ The “taxpayer segment” organizational model: A more recent development among a small number of developed countries (e.g. Australia and United States) organizes service and enforcement functions principally around “segments of taxpayers” (e.g. large businesses, small/medium businesses, high net worth individuals, etc.).</li> </ul> </li> </ul> |
| <b>Organization and Governance</b>       | <ul style="list-style-type: none"> <li>■ The introduction of organizational structures with reduced layers of management and providing for a more centralized form of national management (e.g. Estonia, Finland, and Latvia); ongoing efforts to establish taxpayer segment-based compliance structures, including large taxpayers (e.g. in Belgium, Czech Rep., and Portugal)</li> </ul>   |
| <b>Technology</b>                        | <ul style="list-style-type: none"> <li>■ In 11 countries, a formal management/advisory board comprised of external representatives has been established as part of the overall governance framework</li> <li>■ The vast majority of revenue bodies have concentrated their information processing work in a small number of dedicated sites and maintain large in-house tax fraud investigation and enforced tax debt collection functions</li> </ul>  |
| <b>Sourcing and Location</b>             | <ul style="list-style-type: none"> <li>■ While the majority of revenue bodies reported the operation of a full in-house IT function, ten revenue bodies rely significantly on outsourced arrangements or other parts of government for their IT support</li> <li>■ Many revenue bodies, especially a number in Europe (e.g. Greece and Portugal), are taking steps to significantly scale down the size of their office networks to reduce operating costs; however, many revenue bodies still operate with what appears to be abnormally large office networks, having regard to the size of their client base</li> </ul>   |
|  | <ul style="list-style-type: none"> <li>■ While all revenue bodies operate with office networks which are geographical and hierarchical, many have created centralized operations (e.g. call centers, data processing centers, and large taxpayer offices) to increase efficiency and effectiveness</li> </ul>  |

Table 2. Main points of OECD’s Tax Administration 2013 Report



The Inter-American Centre of Tax Administrations (Centro Interamericano de Administraciones Tributarias – CIAT) defined the Concepts on the Integral Management Model and the Information Systems Model (IMM-TA / ISM – TA). It is important to point out that by establishing an IMM-TA, the tax administration has a better opportunity for operating adequately, given that the management processes, which result in taxpayer control and service actions, provide information flows for management control.

### CONTEXT OF THE TAX ADMINISTRATION

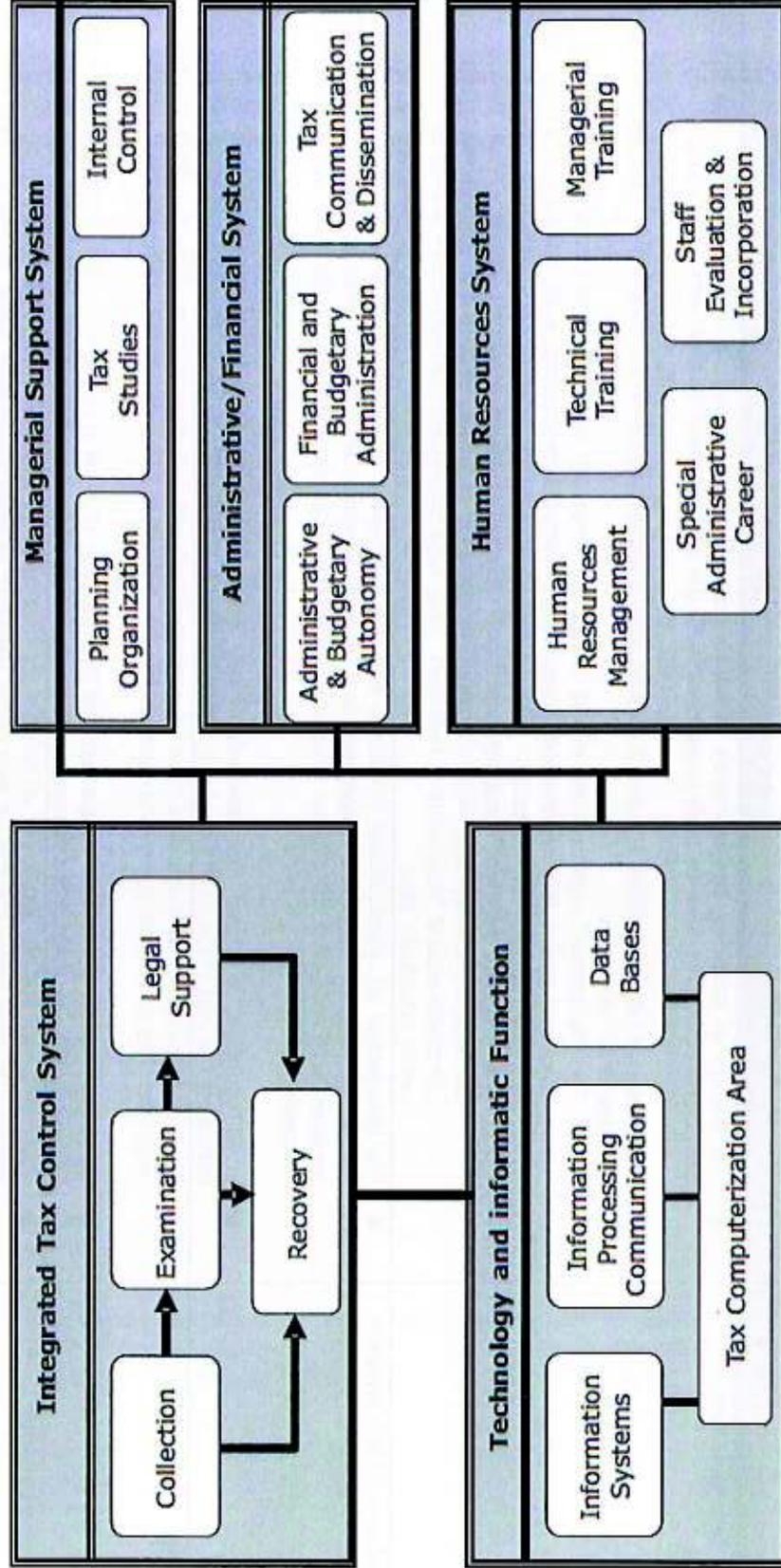


Figure 22. CIAT's IMM-TA / ISM TA Context



## 5 Design Recommendations

### 5.1 Improvement Opportunities

The challenges listed before are detailed in the following Table:

#### 5.1.1 Services, function and process

| Issue / Opportunity                         | Current State Assessment  | Recommendations   | Benefits  |
|---|---|---|---|
| Cumbersome penalty recording in PRITAS      | Consumption Tax: PRITAS lacks functionality to process taxation penalties efficiently for inspections of alcoholic beverage and public entertainment events   | Consider the use of the IVU module in PRITAS as a base to develop a more efficient mechanism to record penalties related to inspections of alcoholic beverages and public entertainment events.                                     | <ul style="list-style-type: none"> <li>■ Better control and data quality related to inspection penalties</li> <li>■ Simplify taxation penalties processing</li> </ul>   |
| Duplicate business activities among bureaus | A number of similar business activities are being performed in multiple bureaus, possibly duplicating effort, for example inspection activities performed in the Fiscal Audits and Consumption Tax bureaus. | Consider creating a shared capability that encompasses the performance of such activities in an efficient and effective manner, and regarding bureaus' objectives, business process characteristics and service level requirements. | <ul style="list-style-type: none"> <li>■ Workforce optimization</li> <li>■ Improved taxpayer service perception (business process efficiency) in the cases where the activity is client-facing since there would only be a single point of contact</li> </ul> |
| Publication of Audit Programs               | Current practice is to keep the audit programs internal to the IRA, which does not directly influence taxpayers' compliance behavior.   | Other jurisdictions have experienced an improvement in the levels of compliance and changes in taxpayer behavior when they decided to publish their tax audit programs. Evaluate the  | <ul style="list-style-type: none"> <li>■ Improved tax collections</li> <li>■ Higher degree of compliance with tax laws and regulations</li> </ul>   |



| Issue / Opportunity                                  | Current State Assessment   | Recommendations  | Benefits   |
|--|--|--|--|
| Excessive manual handling of paper-based tax filings | <p>In 2013 about 4 million tax returns forms were filed, of which 5% represented corporate tax returns and the rest were for individual returns.</p> <p>The approximate 200,000 corporate returns represent a significant amount of paper handled in the Corporate Office because only 3 of the 29 types of corporate returns are being processed electronically.</p> <p>Furthermore, about 50% of the individual returns (about 1.9 million), are also paper-filed.</p> | <p>publication of audit programs on the Department's website (and other channels) to influence taxpayers' behavior towards tax compliance by creating the expectation of a potential audit.</p> <p><b>Corporate Returns:</b><br/>IRA must consider extending the coverage for electronic filings to the rest of the Corporate tax form types, making electronic filing mandatory after a prudent notice.</p> <p><b>Individual Returns:</b><br/>IRA must push toward electronic filing of at least 85% of the returns. This percentage is a generally acceptable level of performance among leading jurisdictions.</p> <p>These targets will require major improvements in the functionality of the current applications used for electronic filing and processing.</p> | <ul style="list-style-type: none"> <li>■ Improved taxpayer service levels by facilitating tax form completion, and filing, faster processing of refunds and better compliance with tax regulations</li> <li>■ Faster and less effort in processing of returns</li> <li>■ Minimizes data entry errors and improves data quality</li> <li>■ Provides timely information on returns processing</li> </ul> |
| Corporate filing failure penalties not being applied | <p>In the Internal Revenue code of 2011, section 6041.11, there are penalties for failing to file</p>  | <p>Prioritize the programming of the penalties in PRITAS so that the penalties can be imposed and</p>  | <ul style="list-style-type: none"> <li>■ Increased compliance with Tax legislation</li> </ul>  |



| Issue / Opportunity  | Current State Assessment   | Recommendations   | Benefits   |
|--|--|---|--|
|  | <p>informative forms, tax returns forms and reconciliation reports on time. Those penalties are not being identified and collected because the system (PRITAS) has not been programmed to enforce compliance with section 6041.11.</p>   | <p>collected.</p>   | <ul style="list-style-type: none"> <li>■ Increased revenues due to penalties</li> </ul>  |
| <p>Centralization of taxpayer consultations</p>  | <p>Currently, corporate taxpayer consultations are provided both by the <i>Application of Employer Payments and Estimations</i> Section of the Processing Bureau and the Taxpayer Services Bureau. In the case of the Processing Bureau this has required the assignment of Tax Technicians of the additional duties of receiving and answering inquiries and consultations from the corporate taxpayers. This could be impacting the productivity of the Bureau and creates, at least, two points of contact for the taxpayers.</p> | <ul style="list-style-type: none"> <li>■ Provide Taxpayer Services staff with the tools and knowledge to deal with corporate inquiries and consultations.</li> <li>■ Centralize provision of advisory services to the corporate taxpayers through the Taxpayer Service centers, in order to focus the Application of Employer Payments and Estimations Section efforts in the performance of their core tasks.</li> </ul> | <p>Centralized Taxpayer Service Center</p> <ul style="list-style-type: none"> <li>■ The expected increase in taxpayer inquiries and consultations after the implementation of the Tax Reform will require a more capable Taxpayer Service Bureau.</li> </ul> |
| <p>Unreliable and out of date data in systems supporting the <b>Collections and Taxpayer</b></p> | <ul style="list-style-type: none"> <li>■ Unreliable and out of date data in systems have produced:</li> <li>■ Unnecessary collection efforts on taxpayers who</li> </ul>   | <ul style="list-style-type: none"> <li>■ Identify opportunities to data synchronization and normalization through the use of improved system integration mechanisms</li> <li>■ Identify process issues and</li> </ul>   | <ul style="list-style-type: none"> <li>■ Increase efficiency of Collections process.</li> <li>■ Optimization of tax arrears collections process to develop collection strategies based on taxpayer</li> </ul>  |



| Issue / Opportunity  | Current State Assessment   | Recommendations  | Benefits  |
|--|--|--|---|
| <p>Services process due to insufficient integrations of systems</p>  | <p>have compiled or have non collectable debts.</p> <ul style="list-style-type: none"> <li>■ Difficulties to schedule collection visits to taxpayers due to outdated or inaccurate addresses.</li> <li>■ Sub-optimal collection efforts in specialized economic sectors or industry segments.</li> <li>■ Increased volume of consultations/requests for debt certifications and other services within Taxpayer Services Centers due to inaccurate information in operational systems.</li> </ul> | <p>system limitations that impact data accuracy and timeliness</p> <ul style="list-style-type: none"> <li>■ Create a project to improve data quality (data cleanup) in the operational databases.</li> </ul>   | <p>segmentation</p> <ul style="list-style-type: none"> <li>■ Increased taxpayers' compliance with tax debt payments.</li> </ul>   |
| <p>Insufficient automation to support <b>Collections</b> process</p> | <ul style="list-style-type: none"> <li>■ Debt list processing and allocation is not automated.</li> <li>■ Lack of automation in the selection and assignment of collection cases to tax technicians and issuance of notifications to taxpayers.</li> <li>■ Public Service employees' and contractors' Deductions on Wages sub-process requires completion and approval of hard copy forms. This impacts the ability to effectively execute this</li> </ul>                                       | <ul style="list-style-type: none"> <li>■ Evaluate alternatives and select an optimal solution for improving tax arrears notifications, considering automated solutions that may help to minimize data errors due to transcriptions.</li> <li>■ Evaluate alternatives and select an optimal solution to improve the tracking of installment plans for collecting tax arrears. This should include allowing taxpayers and collectors to easily identify the application of debt payments to the correct payment plan or tax</li> </ul> | <ul style="list-style-type: none"> <li>■ Automated notification methods to taxpayers.</li> <li>■ Collection management focused on core activities.</li> <li>■ Robust and standardized collection methods.</li> <li>■ Transparent and impartial decision making for debt collection procedures.</li> </ul> |





| Issue / Opportunity  | Current State Assessment  | Recommendations   | Benefits  |
|--|---|---|---|
|  | <p>collection method.</p>   | <p>period.</p> <ul style="list-style-type: none"> <li>■ Evaluate alternatives and select an optimal solution to improve tax arrears classification to focus collection efforts on likely collectable debts for a better return on collections efforts.</li> <li>■ Evaluate alternatives and select an optimal solution to improve web-based payments to allow taxpayers to easily comply with their contribution commitments. This may include the design and implementation of new and improved capabilities which may enable Internal Revenue Area resources to deliver results more efficiently, and to focus on core activities.</li> </ul> |   |
| <p>Insufficient automation support for <b>Voluntary Compliance</b> process</p> | <p>Not all payment types are currently implemented in the web channel.</p> <p>An important example is IVU (consumption tax) payments, which can only be made at the Banco Popular branches.</p> | <ul style="list-style-type: none"> <li>■ Expand existing web payment functionality to include as many payment types as possible.</li> <li>■ Consider on-line banking payments as an alternate mechanism (payments through "affiliated" banks)</li> <li>■ Use lessons learned in other industries, like utilities, banking and insurance, to introduce web-based payments as a viable alternative to in-person payments.</li> </ul>  | <ul style="list-style-type: none"> <li>■ Better customer service (e.g. 24x7 availability) which may require always on help desk services</li> <li>■ Improved and accurate collections process</li> <li>■ Potentially increased collections</li> </ul> |



| Issue / Opportunity   | Current State Assessment   | Recommendations  | Benefits  |
|---|--|--|---|
| <p>Continuous improvement mechanisms are not formally established within <b>Taxpayer Services</b> process</p> | <ul style="list-style-type: none"> <li>■ Taxpayer Services' client requirement/problem resolution information is not formally considered and processed as a key input for determining improvement opportunities.</li> <li>■ Service delivery information is not recorded in sufficient detail to provide management information for process optimization and root-cause analysis of trending issues for proactive resolution and improved customer service.</li> </ul> | <p>This should include appropriate help and training capabilities for the taxpayers.</p> <ul style="list-style-type: none"> <li>■ Perform periodic client satisfaction surveys, or any other similar feedback mechanisms, in order to receive feedback about service experience within Taxpayer Service Centers that can be used for operational improvement.</li> <li>■ Implement mechanisms to capture appropriate details of services provided to support trend analysis and knowledge capture and training.</li> </ul> | <ul style="list-style-type: none"> <li>■ Focus on taxpayer's needs, in order to predict improvement initiatives instead of being reactive.</li> <li>■ Improve taxpayer service experience and the Department's image, credibility and professionalism</li> <li>■ Identify themes for taxpayer education/awareness programs to proactively resolve potential issues</li> <li>■ Improved knowledge transfer and training programs for Department's staff to reduce risks introduced by staff turnover.</li> </ul> |
| <p>Increase web-based services to optimize <b>Taxpayer Services</b> operations</p>                            | <p>Currently, taxpayers are provided with a variety of services that are offered through the web channel but some are still offered only in person.</p>  | <ul style="list-style-type: none"> <li>■ Consider, as a priority, the provision of high volume services through the web channel, such as requests for copies of processed tax returns or Tax Filing Certificates</li> </ul>  | <ul style="list-style-type: none"> <li>■ Minimize the demand of face-to-face services</li> <li>■ Improve taxpayer's satisfaction due to the elimination of trips to Department of the Treasury locations.</li> </ul>  |
| <p>Limited access to information in licensed databases to support <b>Specialized Consults</b> processing</p>  | <p>Currently, some Tax Technicians are not provided with access to reference databases used in the provision of specialized consults due to licensing limitations (not enough licensed seats)</p>  | <ul style="list-style-type: none"> <li>■ Evaluate the acquisition of additional licenses to enable access to the reference databases to improve service provision.</li> </ul>  | <ul style="list-style-type: none"> <li>■ Timely responses to consultations</li> <li>■ Improve taxpayer service experience and the Department's image, credibility and professionalism</li> </ul>  |



| Issue / Opportunity  | Current State Assessment   | Recommendations   | Benefits   |
|--|--|---|--|
| <p>Insufficient automation support for <b>Specialized Consults</b></p> | <p>Consultation response memorandum letters are developed semi-manually (using a word processor) and are subject to the author's determination of the response format.</p> | <ul style="list-style-type: none"> <li>■ Consider the adoption of a software package that facilitates the creation, review and approval of memorandum letters or reports using parameters, topic maps and predefined paragraphs.</li> </ul> | <ul style="list-style-type: none"> <li>■ More efficiency, control and consistency in the creation of consultation responses, which increases quality of consultation results.</li> </ul> |

### 5.1.2 Organization and Governance

| Issue / Opportunity                                 | Current State Assessment  | Recommendations  | Benefits   |
|---|---|--|--|
| <p>Combined types of Organizational Structures.</p> | <p>The current structure of the Internal Revenue Area has two types of organizational structures combined. Most of their bureaus are organized by type of service and one bureau, Consumption Tax, is structured by type of tax. This could be leading to a possible duplication of efforts, mainly on the functions of inspection and audit.</p> | <ul style="list-style-type: none"> <li>■ All of the processes and functions performed by the Consumption Tax Bureau need to be analyzed and contrasted against the rest of the bureaus in order to determine if there is an existing duplicity of functions, efforts and resources.</li> </ul> | <ul style="list-style-type: none"> <li>■ Clear knowledge of the activities performed by the Consumption Tax Bureau that could lead to a potential optimization and restructure of staff and procedures.</li> </ul> |



| Issue / Opportunity   | Current State Assessment  | Recommendations  | Benefits   |
|---|---|--|--|
| <p>High amount of vacant and interim staff on leadership positions.</p> | <p>Currently 24% of the Chiefs of Division positions are occupied by interim staff and 29% are currently vacant. Also, 36% of the Supervisors positions are occupied by Interim staff.</p> <p>Staffs occupying these interim positions as Team Leaders are offered this role because they are usually the highest ranked employee within their Division or Section and in the majority of the cases, are part of the Unions. Employees in the Union, designated as Team Leaders, can coordinate functions, guide the team and prepare performance reports, but they cannot take disciplinary actions or important administrative decisions; resulting in an additional responsibility for the Director of the Bureau.</p> | <ul style="list-style-type: none"> <li>■ Implement a formal assessment process in which the Department can evaluate the staff occupying or eligible to occupy leadership roles, in order to determine if they have the necessary knowledge and skills to be considered for a higher ranked qualification.</li> <li>■ Implement a formal training and development program, in order to allow the high potential employees to fulfill the necessary requirements.</li> <li>■ Implement an internal contest for the vacant positions, heading to incentive qualified staff from other areas to participate in the selection process.</li> </ul> | <ul style="list-style-type: none"> <li>■ Motivated and capable staff at the Leadership positions.</li> <li>■ Keep the institutionalism of functions and processes.</li> <li>■ Provides a career development opportunity to the current staff.</li> </ul> |
| <p>Significant amount of contracted staff occupying core positions</p>  | <p>The major percentages of core positions, such as Tax Technician and Assistant Collector, are occupied by contracted staff, specifically on the following Bureaus:</p> <ul style="list-style-type: none"> <li>■ Collections (31%)</li> <li>■ Processing (24%)</li> </ul>  | <p>Hire permanent staff in core positions, according to the current budget, and locate the contracted staff mainly in administrative positions.</p>  | <ul style="list-style-type: none"> <li>■ Count on experienced and permanent staff with adequate knowledge and skills to perform core functions.</li> </ul>   |



| Issue / Opportunity | Current State Assessment  | Recommendations | Benefits  |
|---------------------|---|-----------------|---|
|                     | <ul style="list-style-type: none"><li>■ Taxpayer Services (45%)<br/>Having staff in core positions on a contract scheme could be a potential risk of knowledge loss. In the event that the Department and the contracting companies, Kelly and CTS, decide to terminate the current contract, can lead to the following situations:<ul style="list-style-type: none"><li>■ Contracted staffs in core positions manage specialized knowledge regarding tax topics, that will be lost and there is no guarantee the Department could hire all of them directly.</li><li>■ Contracted staff are more likely to rotate, causing a loss of the invested time and resources for training.</li></ul></li></ul> |                 | <p>■ Reduce the cost of training and resources by keeping core positions occupied by permanent staff.</p> |



| Issue / Opportunity                            | Current State Assessment  | Recommendations   | Benefits   |
|--|---|---|--|
| <p>Span of control above the optimal ratio</p> | <p>60% of the Directors and 33% of the Chief of Divisions are above of the optimal ratio regarding the span of control. It can be remarked the following particulars:</p> <ul style="list-style-type: none"> <li>▣ There are Chief of Division positions that are vacant, causing the Supervisor to report directly to the Director.</li> <li>▣ Currently 3 of the 6 bureaus do not have a formal Sub-Director in place.</li> <li>▣ The Directors' offices have an average of 10 employees who report directly to the Directors.</li> </ul> | <ul style="list-style-type: none"> <li>▣ Redistribute the responsibilities of the Bureaus, within the staff from the Director's offices, keeping the amount of direct reports under 12 per manager at a senior manager level.</li> <li>▣ Formally assigned the Sub-Director position in all bureaus, in which the position is vacant or on an interim basis.</li> </ul> | <ul style="list-style-type: none"> <li>▣ The Director will count on experienced staff that will provide valuable knowledge, leaving the Director a smaller group of direct reports.</li> <li>▣ Directors can dedicate more time in process improvement and strategic activities rather than in daily situations that can be attended by mid leadership positions.</li> </ul> |

### 5.1.3 Technology

| Issue / Opportunity | Current State Assessment | Recommendations | Benefit |
|---------------------|--------------------------|-----------------|---------|
|---------------------|--------------------------|-----------------|---------|



| Issue / Opportunity  | Current State Assessment   | Recommendations   | Benefit  |
|--|--|---|--|
| Incipient infrastructure capacity and performance monitoring | Lack of formal continuous monitoring of IT equipment (e.g. servers, communication devices), bandwidth, level of data storage and processing, which currently causes connections and server failures. | <ul style="list-style-type: none"> <li>▣ Establish a monitoring process for the review of performance and capacity of IT resources to ensure that capacity and performance are available to process workloads</li> <li>▣ Use performance indicators to determine if current computer equipment supports future business requirements</li> </ul>                                     | <ul style="list-style-type: none"> <li>▣ Effective IT resource utilization</li> <li>▣ Service levels meeting the business requirements</li> <li>▣ Effective IT resource availability management</li> </ul> |
| Lack of Business Continuity Plan                             | Lack of an alternate data center as a contingency in case of incidents.  | Establish an alternate site where the critical IT operations of the Department of the Treasury can continue in case of a disaster or an extended outage of the main data center.  | <ul style="list-style-type: none"> <li>▣ Business continuity</li> <li>▣ Effective service delivery to Taxpayers</li> <li>▣ Reduce risk of loss of reputation and sensitive information</li> </ul>          |
| Lack of critical support resources                           | Reliance on key single individuals performing core IT functions or critical application support  | Evaluate minimizing the exposure of critical dependency on key individuals through knowledge capture (documentation), knowledge sharing and staff backup; this future staffing plans must consider the availability of staff experienced with the platforms, database systems, user application support requirements (e.g., programming language, software engineering tools, etc.) | <ul style="list-style-type: none"> <li>▣ Continuity of critical IT services</li> <li>▣ Lower cost of support</li> <li>▣ Critical IT roles reliably supported</li> </ul>                                    |



| Issue / Opportunity                               | Current State Assessment   | Recommendations  | Benefit   |
|---|--|--|---|
| <p>Informal Change Management</p>                 | <p>Lack of formal and approved change management procedures.</p>   | <p>Establish formal change management procedures to handle, in a standardized manner, all requests (including maintenance and patches) for changes to applications, procedures, processes, system and service parameters, infrastructure, and the underlying platforms.</p>  | <ul style="list-style-type: none"> <li>▣ An agreed-upon and standardized approach for managing changes in an efficient and effective manner</li> <li>▣ Changes reviewed and approved in a consistent and coordinated way</li> <li>▣ Formally defined expectations and performance measurement</li> </ul>  |
| <p>Informal Help Desk/User Support Management</p> | <p>Technology-related incidents are managed informally and partially recorded in the Help Desk tool.</p> | <p>Establish a service desk function, which is the user interface with IT, to register, communicate, dispatch and analyze all calls, reported incidents, service requests and information demands. There should be monitoring and escalation procedures based on agreed-upon service levels relative to the appropriate SLA that allow classification and prioritization of any reported issue as an incident, service request or information request. Measure end users' satisfaction with the quality of the service desk and IT services.</p> | <ul style="list-style-type: none"> <li>▣ Increased customer satisfaction</li> <li>▣ Defined and measurable service desk performance</li> <li>▣ Incidents reported, followed up and solved in a timely manner</li> <li>▣ Availability of knowledge of more common problems, which enables the business to provide future corrective actions</li> </ul> |



| Issue / Opportunity                                  | Current State Assessment   | Recommendations   | Benefit  |
|--|--|---|--|
| Lack of formal Service Level Agreements              | Critical Internal Revenue Area processes reliance on only certain IT services, which are not covered by service level agreements, such as application support and user provisioning. At the moment a service level framework is not defined that establishes a service catalog and minimum SLAs. | Ensure that consultants and contract personnel who support the IT function know and comply with the organization's policies for the protection of the information assets.   | <ul style="list-style-type: none"> <li>■ Contracted staff supporting the needs of the business</li> <li>■ Knowledge sharing and retention within the organization</li> <li>■ Protection of the information assets</li> <li>■ Control over the contracted personnel's activities</li> </ul> |
| Lack of operational performance metrics              | Metrics, like Balanced Scored Card or others to measure the performance of IT Operations are not in place.   | Establish a framework to add strategic performance measures to traditional financial metrics to give managers and executives a detailed view of organizational performance.   | <ul style="list-style-type: none"> <li>■ Alignment IT services to the vision and strategy of the Department of the Treasury</li> <li>■ Improved internal and external communications</li> <li>■ IT Service performance aligned with business strategic goals</li> </ul>                    |
| Point to Point or inflexible application integration | Separate systems have been developed or evolved over time using a variety of, often-incompatible, databases, and technologies.   | Upgrade applications (through the development of software wrappers) to use Web services and/or an enterprise application integration (EAI) tool (e.g. Entire-X, iWAY) to integrate them taking advantage of already acquired enterprise service bus technologies. | <ul style="list-style-type: none"> <li>■ The use of Web Services and message-oriented middleware will allow flexible decoupling of applications and provide future replacement of functionality with minimized impact to the rest of the environment.</li> </ul>                           |
| Unreliable Communications Infrastructure             | Entry of data for payments made at Collection Centers is severely delayed when the Point of Sale (POS) system is unavailable due to communication  | Consider more than one communications provider, or ensure redundant lines to ensure availability.   | <ul style="list-style-type: none"> <li>■ Avoid delays and accounting for taxpayer payments.</li> </ul>   |



| Issue / Opportunity                     | Current State Assessment  | Recommendations   | Benefit  |
|---|---|---|--|
|   | line failures.  |   |  |
| Incipient Access Control and Monitoring | Access levels and activities performed by Data Base Administrators for key applications (PRITAS, REFO, PRIFAS) are not being monitored. | <p>Ensure that all power users (internal, external and temporary) and their activity on IT systems (business application, IT environment, system operations, development and maintenance) are uniquely monitored. Future systems should not allow direct access to the databases.</p> | <ul style="list-style-type: none"> <li>■ Effective tracking of data changes</li> <li>■ Proper investigation of improper access activity</li> <li>■ Reliable information ensured by approved business transactions</li> </ul> |

#### 5.1.4 Performance Management

| Issue / Opportunity  | Current State Assessment  | Recommendations  | Benefit  |
|--|---|--|--|
| Lack of mature and robust performance measurement and reporting framework to support the IRA's management. | Management Team invests a lot of time preparing, consolidating and analyzing data to present the current Scorecards due to a lack of a framework to guide the effective measurement and reporting of performance information. | <ul style="list-style-type: none"> <li>■ Provide all bureaus with a baseline data of all indicators and performance to be measured</li> <li>■ Organize workshops where the Business Leaders clarify their needs for the registration and consolidation of data required for IRA's scorecards.</li> </ul> | <ul style="list-style-type: none"> <li>■ Capability to introduce leading practices, encourage excellence and continuous improvement</li> <li>■ Minimize the time required to prepare scorecards</li> </ul> |



### 5.1.5 People and Skills

| Issue / Opportunity         | Current State Assessment  | Recommendations  | Benefits   |
|-----------------------------|---|--|--|
| Hiring & Recruitment        | <ul style="list-style-type: none"> <li>■ Currently the average period time for recruiting a candidate takes about 3 months.</li> <li>■ High recruiting bureaucracy process</li> </ul> | <ul style="list-style-type: none"> <li>■ Consider to modify the recruitment process.</li> <li>■ Search for talent in new areas. Several websites allow candidates to create profiles that include their resumes and other details that can give recruiters a better understanding of the candidates' knowledge and talents.</li> </ul> | <ul style="list-style-type: none"> <li>■ Optimizing the response time in order to fill in the required positions.</li> <li>■ Manage the recruitments as assigned projects per recruiter, this will allow them to have independency on the hiring process.</li> </ul>   |
| Staffing                    | <ul style="list-style-type: none"> <li>■ Staff is transferred among the Bureaus and Sections without the approval and consent of the HR Area.</li> </ul>                              | <ul style="list-style-type: none"> <li>■ Communicate and consult the HR Area the need to cover a position or the need for transferring a staff from its original section/bureau.</li> </ul>  | <ul style="list-style-type: none"> <li>■ Provides a better visibility of the resources location and permits to have a more precise supervision of the resources.</li> <li>■ Avoid possible complaints on behalf of the Unions.</li> </ul>  |
| Salary & Job Classification | <ul style="list-style-type: none"> <li>■ The Salary Scale and Job Classification are outdated since 1996.</li> </ul>  | <ul style="list-style-type: none"> <li>■ Update the Salary Scale and Job Classification based on the market or similar entities.</li> </ul>  | <ul style="list-style-type: none"> <li>■ Establish and implement compensation strategies and action plans in alignment with the strategic objectives of the Department.</li> <li>■ Compensation policies that will attract, retain and motivate qualified staff that requires the Department to develop and promote their activities.</li> </ul> |

| Issue / Opportunity                                  | Current State Assessment   | Recommendations  | Benefits  |
|--|--|--|---|
| Succession Plan                                      | Currently, the Department does not have a Succession Plan, due to political matters.   | <ul style="list-style-type: none"> <li>■ Establish a Succession Plan.</li> <li>■ Identify high potential employees.</li> </ul>   | <ul style="list-style-type: none"> <li>■ Maintain external competitiveness</li> <li>■ Provide a career development program to those that can be promoted into key roles.</li> <li>■ Engage the leadership in supporting the development of high-potential leaders.</li> </ul> |
| Key skills and competencies below the required level | <p>According to the Skills assessment:</p> <ul style="list-style-type: none"> <li>■ 36% of the current staff are below the required level of MS Office Excel proficiency</li> <li>■ 45% of the current staff are below the required level of the Communication Competency</li> <li>■ 56% of the current staff are below the required level Decision Making Competency</li> </ul> <p>MS Excel is a commonly used tool by the staff of the Internal Revenue, the level of proficiency of this application affects the capability to generate reports and produce information analysis.</p> <p>Communication and decision making are key competencies that the staff should demonstrate at an adequate level,</p> | <ul style="list-style-type: none"> <li>■ Excel courses should be considered as a part of the training and development process of each employee. The Department could coordinate in-house trainings, taught by experienced internal staff or consider an external provider to dictate the courses.</li> <li>■ The Internal Revenue Area should coordinate with the Human Resources Area, the possibility of dictating seminars regarding Soft Skills as part of the training and development strategy. Staff from HR or Internal Revenue Areas could be considered as potential trainers, or an external provider could be</li> </ul> | <ul style="list-style-type: none"> <li>■ Improve the employee's capability to generate reports and produce information analysis.</li> <li>■ Improve the soft skills required to fulfill the daily duties, especially on staff occupying leadership positions.</li> </ul>      |



| Issue / Opportunity                      | Current State Assessment   | Recommendations  | Benefits  |
|--|--|--|---|
| No access to key and useful applications | <p>especially in leadership positions such as Supervisors and Chiefs of Division.</p> <p>Staffs of NACCE and Fiscal Audit do not have access to Key Applications that are important sources of information for their daily duties. The applications are the following:</p> <ul style="list-style-type: none"><li>■ CheckPoint</li><li>■ LexisNexis</li><li>■ Microjuris</li><li>■ BNA Portfolios</li></ul> <p>Not having access to them can cause delays on the resolution of the cases due to the limited information and that the staff may have to consult to the Supervisors/Chiefs who have access to these applications.</p> | <p>considered as a second choice.</p> <p>The Internal Revenue Area should evaluate the conferring of access to applications for the key staff within the mentioned Bureaus, taking into consideration the amount of staff and the potential cost of the required accesses to the applications.</p> | <ul style="list-style-type: none"><li>■ Increased performance of the daily functions.</li><li>■ Better documentation support to cases resolution.</li></ul> |



# 6 Appendix

|  |   |
|--|---|
| <p>1. Introduction</p> <p>2. Methodology</p> <p>3. Results</p> <p>4. Discussion</p> <p>5. Conclusion</p>     | <p>6. Appendix</p> <p>7. Bibliography</p> <p>8. Index</p>   |
| <p>9. Appendix A</p> <p>10. Appendix B</p> <p>11. Appendix C</p> <p>12. Appendix D</p> <p>13. Appendix E</p> | <p>14. Appendix F</p> <p>15. Appendix G</p> <p>16. Appendix H</p> <p>17. Appendix I</p> <p>18. Appendix J</p> |

## ■ **Span of Control by Bureaus**

This charts show the amount of direct reports per manager. As explained in Section 3.2 – Organization and Governance, the Optimal Ratio for Directors and Chiefs of Division is 6-12 subordinates per manager and the Optimal Ratio for Supervisors is 7-30 subordinates per manager.

Description:

- Highlighted in yellow: manager positions that are above the optimal ratio of subordinates
- Highlighted in gray: manager positions that are currently vacant

| <b>Collections</b>                             |                 |                       |                      |
|--|-----------------|-----------------------|----------------------|
| <b>Position</b>                                | <b>Managers</b> | <b>Direct Reports</b> | <b>Optimal Ratio</b> |
| Director's Office                              | 1               | 12                    | 6 - 12               |
| Accounting Division                            | 1               | 10                    | 6 - 12               |
| Preliminary Interventions Section              | 1               | 10                    | 7 - 30               |
| Account Control Section                        | 1               | 6                     | 7 - 30               |
| Claims and Refunds Section                     | 1               | 9                     | 7 - 30               |
| Fiscal Reports Division                        | 1               | 1                     | 6 - 12               |
| Collection Centers Division                    | 1               | 10                    | 6 - 12               |
| Payment Application Section                    | 1               | 11                    | 7 - 30               |
| Collection Center Section (7 District Offices) |                 |                       |                      |
| Arecibo  | 1               | 15                    | 7 - 30               |
| Bayamón  | 1               | 11                    | 7 - 30               |
| Caguas   | 1               | 14                    | 7 - 30               |
| Humacao  | 1               | 14                    | 7 - 30               |
| Mayagüez                                       | 1               | 19                    | 7 - 30               |
| Ponce  | 1               | 19                    | 7 - 30               |
| San Juan                                       | 1               | 12                    | 7 - 30               |
| Compliance and Collections                     | 1               | 15                    | 6 - 12               |
| Salary Discount and Analysis Section           | 1               | 6                     | 7 - 30               |
| Collection Districts (10 District Offices)     |                 |                       |                      |
| Arecibo  | 1               | 16                    | 7 - 30               |

| <b>Collections</b>          |                 |                       |                      |
|-----------------------------|-----------------|-----------------------|----------------------|
| <b>Position</b>             | <b>Managers</b> | <b>Direct Reports</b> | <b>Optimal Ratio</b> |
| Bayamón                     | 1               | 8                     | 7 - 30               |
| Caguas                      | 1               | 12                    | 7 - 30               |
| Carolina                    | 1               | 13                    | 7 - 30               |
| Humacao                     | 1               | 9                     | 7 - 30               |
| Guaynabo                    | 1               | 9                     | 7 - 30               |
| Mayagüez                    | 1               | 14                    | 7 - 30               |
| Ponce                       | 1               | 12                    | 7 - 30               |
| Rio Piedras                 | 1               | 7                     | 7 - 30               |
| San Juan                    | 1               | 11                    | 7 - 30               |
| Call Center                 | 1               | 40                    | 7 - 30               |
| Special Procedures Division | 1               | 7                     | 6 - 12               |
| Auctions Section            | 0               | 0                     | 7 - 30               |
| Bankruptcy Section          | 1               | 13                    | 7 - 30               |

| <b>Consumption Tax</b>               |                 |                       |                      |
|--------------------------------------|-----------------|-----------------------|----------------------|
| <b>Position</b>                      | <b>Managers</b> | <b>Direct Reports</b> | <b>Optimal Ratio</b> |
| Director's Office                    | 1               | 25                    | 6 - 12               |
| Business Services Division           | 0               | 4                     | 6 - 12               |
| Compliance Division                  | 1               | 21                    | 6 - 12               |
| Taxation Section                     | 3               | 60                    | 7 - 30               |
| District Offices (10 districts)      |                 |                       |                      |
| San Juan                             | 3               | 72                    | 7 - 30               |
| Bayamón                              | 2               | 33                    | 7 - 30               |
| Arecibo                              | 2               | 26                    | 7 - 30               |
| Aguadilla                            | 1               | 25                    | 7 - 30               |
| Mayagüez                             | 1               | 24                    | 7 - 30               |
| Ponce                                | 2               | 23                    | 7 - 30               |
| Caguas                               | 2               | 29                    | 7 - 30               |
| Humacao                              | 2               | 23                    | 7 - 30               |
| Sales and Use Tax (SUT) Intelligence | 0               | 0                     | 6 - 12               |

| <b>Consumption Tax</b>        |                 |                       |                      |
|-------------------------------|-----------------|-----------------------|----------------------|
| <b>Position</b>               | <b>Managers</b> | <b>Direct Reports</b> | <b>Optimal Ratio</b> |
| Division                      |                 |                       |                      |
| SUT Technology Section        | 0               | 0                     | 7 - 30               |
| Tax Filing Processing Section | 0               | 0                     | 7 - 30               |
| SUT Audit Section             | 2               | 39                    | 7 - 30               |

| <b>Processing</b>                                |                 |                       |                      |
|--|-----------------|-----------------------|----------------------|
| <b>Position</b>                                  | <b>Managers</b> | <b>Direct Reports</b> | <b>Optimal Ratio</b> |
| Director's Office                                | 1               | 16                    | 6 - 12               |
| Processing Division                              | 0               | 0                     | 6 - 12               |
| Classification and Numbering Section             | 1               | 10                    | 7 - 30               |
| Preliminary Review Section                       | 1               | 44                    | 7 - 30               |
| Account Administration Section                   | 1               | 14                    | 7 - 30               |
| Tax Filing Adjustment and Requirements Section   | 1               | 25                    | 7 - 30               |
| Information Systems' Support Division            | 0               | 0                     | 6 - 12               |
| Data Entry Section                               | 2               | 150                   | 7 - 30               |
| Data Correction Section                          | 1               | 51                    | 7 - 30               |
| Fiscal Compliance and Archive Division           | 0               | 0                     | 6 - 12               |
| Corporate and Estimated tax filling form Section | 1               | 19                    | 7 - 30               |
| Archive and Photocopies Section                  | 1               | 19                    | 7 - 30               |

| <b>Fiscal Audits</b>               |                 |                       |                      |
|------------------------------------|-----------------|-----------------------|----------------------|
| <b>Position</b>                    | <b>Managers</b> | <b>Direct Reports</b> | <b>Optimal Ratio</b> |
| Director's Office                  | 1               | 10                    | 6 - 12               |
| Investigations Division            | 1               | 13                    | 6 - 12               |
| Employer Investigations Section    | 1               | 12                    | 7 - 30               |
| Interventions Section              | 1               | 18                    | 7 - 30               |
| Specialized Investigations Section | 1               | 17                    | 7 - 30               |

| <b>Fiscal Audits</b>                        |                 |                       |                      |
|---|-----------------|-----------------------|----------------------|
| <b>Position</b>                             | <b>Managers</b> | <b>Direct Reports</b> | <b>Optimal Ratio</b> |
| Fiscal Audit Districts (7 District Offices) |                 |                       |                      |
| San Juan                                    | 1               | 42                    | 7 - 30               |
| Bayamón                                     | 1               | 16                    | 7 - 30               |
| Arecibo                                     | 1               | 19                    | 7 - 30               |
| Mayagüez                                    | 1               | 24                    | 7 - 30               |
| Ponce                                       | 1               | 21                    | 7 - 30               |
| Caguas                                      | 1               | 17                    | 7 - 30               |
| Humacao                                     | 1               | 21                    | 7 - 30               |
| Investigated Cases Review Division          | 1               | 8                     | 6 - 12               |

| <b>Taxpayer Assistance &amp; Specialized Consults</b>    |                 |                       |                      |
|--|-----------------|-----------------------|----------------------|
| <b>Position</b>  | <b>Managers</b> | <b>Direct Reports</b> | <b>Optimal Ratio</b> |
| Director's Office  | 0               | 6                     | 6 - 12               |
| Division of Tax Practitioners' Regulations and Education | 1               | 5                     | 6 - 12               |
| Publications and Forms Division                          | 1               | 5                     | 6 - 12               |
| Administrative Reviews and Legislation Division          | 1               | 20                    | 6 - 12               |
| Inheritance and Donations Section                        | 1               | 19                    | 7 - 30               |
| Administrative Decisions Section                         | 0               | 0                     | 7 - 30               |
| Special Societies Section                                | 0               | 0                     | 7 - 30               |
| Pension Plans Section                                    | 0               | 0                     | 7 - 30               |
| General Consults   | 0               | 6                     | 7 - 30               |
| Tax Exemption Division                                   | 1               | 7                     | 6 - 12               |

**Taxpayer Services Bureau**

| <b>Position</b>                         | <b>Managers</b> | <b>Direct Reports</b> | <b>Optimal Ratio</b> |
|---|-----------------|-----------------------|----------------------|
| Director's Office                       | 1               | 21                    | 6 - 12               |
| Immediate Respond                       | 1               | 19                    | 7 - 30               |
| San Juan Mercantil Plaza Service Center | 1               | 33                    | 7 - 30               |
| San Juan Intendente Ramirez Center      | 1               | 36                    | 7 - 30               |
| Bayamón Service Center                  | 1               | 11                    | 7 - 30               |
| Call and Mail Center                    | 1               | 33                    | 7 - 30               |
| Ponce Service Center                    | 1               | 16                    | 7 - 30               |
| Aguadilla Service Center                | 1               | 9                     | 7 - 30               |
| Arecibo Service Center                  | 1               | 12                    | 7 - 30               |
| Mayagüez Service Center                 | 1               | 16                    | 7 - 30               |
| Caguas Service Center                   | 1               | 14                    | 7 - 30               |



## B. Governance

Responsibility charting (also known as RACI charting) is a technique used for charting organizational roles and responsibilities in a consistent manner. The four types of responsibility code that can be assigned to an activity are:

- Responsibility 'R' - the individual(s) who actually completes the task, the doer. This person is responsible for action or implementation. Responsibility can be shared. The degree of responsibility for each role in a shared activity is determined by the accountable individual.
- Accountability 'A' - the individual who is ultimately responsible. Includes yes or no and veto power.
- Consult 'C' - the individual(s) to be consulted prior to a final decision or action. This incorporates two-way communication.
- Inform 'I' - the individual(s) who needs to be informed after a decision or action is taken. This incorporates one-way communication.

The following tables show the analyzed responsibilities according to the processes performed:

### B.1 Submission

| KEY ACTIVITIES    |   | Tax Payer | Post Office | Preliminary Review - Clerk | Preliminary Review - Tax Technician | Numbering - Clerk |
|-------------------|---|-----------|-------------|----------------------------|-------------------------------------|-------------------|
| <b>Submission</b> |   |           |             |                            |                                     |                   |
| 1                 | Send tax filing form                        | R         |             |                            |                                     |                   |
| 2                 | Receive and classify the tax form           |           | R           |                            |                                     |                   |
| 2                 | Validate tax form batch                     |           |             | R                          |                                     |                   |
| 3                 | Assign batch in SECPRO system               |           |             | R                          |                                     |                   |
| 4                 | Analyze the tax form batch                  |           |             |                            | R                                   |                   |
| 5                 | Register the batch in the SECPRO system     |           |             |                            | R                                   |                   |
| 6                 | Verify batch in SECPRO system               |           |             |                            |                                     | R                 |
| 7                 | Print serial number in SECPRO system        |           |             |                            |                                     | R                 |
| 8                 | Assign batch                                |           |             |                            |                                     | R                 |
| 9                 | Print serial numeration for tax filing form |           |             |                            |                                     | R                 |
| 10                | Final check of each tax form.               |           |             |                            |                                     | R                 |

|   |             |
|---|-------------|
| R | Responsible |
| A | Accountable |
| C | Consulted   |
| I | Informed    |

## B.2 Calculation

| KEY ACTIVITIES |   | Data Entry - Storehouse Clerk | Data entry - Data Entry Operator | Data Correction - Clerk | Data correction - Tax Technician |
|----------------|---|-------------------------------|----------------------------------|-------------------------|----------------------------------|
| Calculation    |   |                               |                                  |                         |                                  |
| 1              | Receive the boxes of tax filing form                          | R                             |                                  |                         |                                  |
| 2              | Assign the index, biographic data                             |                               | R                                |                         |                                  |
| 3              | Analyze statistics data                                       |                               | R                                |                         |                                  |
| 4              | Collect tax form  |                               | R                                |                         |                                  |
| 5              | Receive boxes of tax forms and send it to data correction     | R                             |                                  |                         |                                  |
| 6              | Assign packages in system SECPRO                              |                               |                                  | R                       |                                  |
| 7              | Analyze package vs. REFO                                      |                               |                                  |                         | R                                |
| 8              | Classify the tax form return to be addressed to other section |                               |                                  |                         | R                                |
| 9              | Update system CYSPLA  |                               |                                  | R                       |                                  |
| 10             | Send processed tax filing form to archives section            |                               |                                  | R                       |                                  |

|   |             |
|---|-------------|
| R | Responsible |
| A | Accountable |
| C | Consulted   |
| I | Informed    |

### B.3 Fiscal Inspection – Sales and Use Tax

|                |   | Chief of Compliance | Contribution Technician V | Internal Revenue VI | Internal Revenue Agent |
|----------------|---|---------------------|---------------------------|---------------------|------------------------|
| KEY ACTIVITIES |   |                     |                           |                     |                        |
| Fiscal Audit   |   |                     |                           |                     |                        |
| 1              | Receive N222, referred cases, IVU alert or list of public shows |                     |                           | I                   |                        |
| 2              | Analyze cases to be conducted                                   |                     |                           | R                   |                        |
| 3              | Elaborate inspection plan                                       |                     |                           | R                   |                        |
| 4              | Conduct the inspection  |                     |                           |                     | R                      |
| 5              | Complete form 2924 or 2377 according to the case                |                     |                           |                     | R                      |
| 6              | Prepare final Report Inspection                                 |                     |                           | R                   |                        |
| 7              | Taxation Debt   |                     | R                         |                     |                        |
| 8              | Notify Taxpayer   |                     | R                         | I                   |                        |
| 9              | Analyze and consolidate report                                  | R/A                 |                           |                     |                        |

|   |             |
|---|-------------|
| R | Responsible |
| A | Accountable |
| C | Consulted   |
| I | Informed    |

## B.4 Fiscal Inspection – Ports

|                |                                    | Taxpayer | Regional Inspection |
|----------------|------------------------------------|----------|---------------------|
| KEY ACTIVITIES |                                    |          |                     |
| Fiscal Audit   |                                    |          |                     |
| 1              | Input information via web          | R        | C                   |
| 2              | Release merchandise                |          | A                   |
| 3              | Make payment                       | R        |                     |
| 4              | Cross information checking history |          | R                   |
| 5              | Analyze need for inspection        |          | R                   |
| 6              | Inspection                         |          | A                   |
| 7              | Determine tax difference           | C        | R                   |
| 8              | Pay tax difference                 | R        | I                   |
| 9              | Release merchandise for removal    |          | R                   |
| 10             | Scan inspection of wagon           |          | R                   |
| 11             | Removal of cleared merchandise     |          | R                   |

|   |             |
|---|-------------|
| R | Responsible |
| A | Accountable |
| C | Consulted   |
| I | Informed    |

## B.5 Fiscal Audits

| KEY ACTIVITIES      |  | Case Selection Committee | Chief - Investigations Division | Supervisor - Fiscal/Audit District | Auditor - Fiscal/Audit District | Chief - Investigated Cases Review Division | Supervisor - Archive Section | Taxpayer |
|---------------------|--|--------------------------|---------------------------------|------------------------------------|---------------------------------|--|------------------------------|----------|
| <b>Fiscal Audit</b> |  |                          |                                 |                                    |                                 |  |                              |          |
| 1                   | Develop Audit Plan                                     | RC                       |                                 |                                    |                                 |  |                              |          |
| 2                   | Case Selection   | RC                       |                                 |                                    |                                 |  |                              |          |
| 3                   | Update Audit Plan                                      | R                        |                                 |                                    |                                 |  |                              |          |
| 4                   | Register Cases in System                               |                          | R                               |                                    |                                 |  |                              |          |
| 5                   | Request Tax filling form to Archive Office             |                          | R                               |                                    |                                 |  |                              |          |
| 6                   | Analyze and distribute cases to the districts          |                          | R                               | I                                  |                                 |  |                              |          |
| 7                   | Assign cases according to the expertise of the auditor |                          | A                               |                                    | I                               |  |                              |          |
| 8                   | Analyze the cases and search information required      |                          |                                 |                                    | R                               |  |                              |          |
| 9                   | Notify Taxpayer  |                          |                                 |                                    | R                               |  |                              | I        |
| 10                  | Conduct the Audit                                      |                          |                                 |                                    | R                               |  |                              |          |
| 11                  | Deficiency - Present Adjustment to taxpayer            |                          |                                 |                                    | R                               |  |                              | C        |
| 12                  | Fill in Agreed Income Tax Cases (SC-3114)              |                          |                                 |                                    | R                               |  |                              | I        |
| 13                  | Deficiency accepted - Secure Tax Return                |                          |                                 |                                    | R                               |  |                              |          |
| 14                  | Close Audit Case in System                             |                          |                                 | A                                  |                                 |  |                              |          |
| 15                  | Notify Taxpayer  |                          |                                 | R                                  |                                 |  |                              | I        |
| 16                  | Receive all the cases from the different districts     |                          | R                               |                                    |                                 |  |                              |          |
| 17                  | Send to Archive Section resolve cases                  |                          | R                               |                                    |                                 |  |                              | I        |
| 18                  | Quality review   |                          |                                 |                                    |                                 | A  |                              |          |
| 19                  | debt taxation in Prilas system                         |                          |                                 |                                    |                                 | R  |                              |          |
| 20                  | Prepare Notice 3108                                    |                          |                                 |                                    |                                 | R  |                              |          |
| 21                  | Review amount of refund                                |                          |                                 |                                    |                                 | R  |                              |          |
| 22                  | Adjust, cancel, or approve the amount in Prilas System |                          |                                 |                                    |                                 | R/A  |                              |          |
| 23                  | Send to Archive Section                                |                          |                                 |                                    |                                 | R  | I                            |          |
| 24                  | Prepare & Send Notice 3106                             |                          |                                 |                                    |                                 | R  |                              |          |

|   |             |
|---|-------------|
| R | Responsible |
| A | Accountable |
| C | Consulted   |
| I | Informed    |

## B.6 Collections Management

| KEY ACTIVITIES         |  | Taxpayer | Information Technology Area | Supervisor - District Center | Contributions Technician - District Center | Supervisor - Analysis and Salary Discount Section | Supervisor - Payment Application Section | Collectors | Chief of the Compliance and Collections Division |
|------------------------|--|----------|-----------------------------|------------------------------|--|---|--|------------|--|
| Collections Management |  |          |                             |                              |  |   |  |            |  |
| 1                      | Generate debts list  |          | R                           |                              |  |   |  |            |  |
| 2                      | Receive Excel Debts list   |          |                             | R                            |  |   |  |            |  |
| 3                      | Process and filter excel debts list  |          |                             | R                            |  |   |  |            |  |
| 4                      | Assign debt case   |          |                             | R                            |  |   |  |            |  |
| 5                      | Receive debt case  |          |                             |                              | R  |   |  |            |  |
| 6                      | Open Debt Case in System (F625)  |          |                             |                              | R  |   |  |            |  |
| 7                      | Process Debt Certification   |          |                             |                              | R  |   |  |            |  |
| 8                      | Debt doesn't proceed - Process ends  |          |                             |                              | A  |   |  |            |  |
| 9                      | Debt proceeds with a Government Employee - Refer case to Salary Discount Section |          |                             |                              | R  | I   |  |            |  |
| 10                     | Debt proceeds - Starts collection process  |          |                             |                              | R  |   |  |            |  |
| 11                     | Send Notifications letter to taxpayer  | I        |                             |                              | R  |   |  |            |  |
| 12                     | Execute visit to Taxpayer  | I        |                             |                              | R  |   |  |            |  |
| 13                     | Reach a payment agreement  | C        |                             | C/A                          | R  |   |  |            |  |
| 14                     | Send Payment   | R        |                             |                              |  |   | A  | A          |  |
| 15                     | No payment agreement is met - Execute seizure process                            | I        |                             | C/A                          | R  |   |  |            |  |
| 16                     | Seizure process is cancelled   | I        |                             | R                            |  |   |  |            | C/A  |

|   |             |
|---|-------------|
| R | Responsible |
| A | Accountable |
| C | Consulted   |
| I | Informed    |

## B.7 Deduction on Wages

|                     |   | Taxpayer - Government Employee | Information Technology Area | Contributive Technician - District Office | Contributive Technician - Analysis and Salary Discount Section | Supervisor - Analysis and Salary Discount Section |
|---------------------|---|--------------------------------|-----------------------------|---|--|---|
| KEY ACTIVITIES      |   |                                |                             |   |  |   |
| Deductions on wages |   |                                |                             |   |  |   |
| 1                   | Generate debts list   |                                | R                           |   |  |   |
| 2                   | Refer Government Employee Debt Case                           |                                |                             | R   |  |   |
| 3                   | Receive Debt Case/List  |                                |                             |   |  | R   |
| 4                   | Distributed debt case/list                                    |                                |                             |   |  | R   |
| 5                   | Analyze Case  | C                              |                             |   | R  | C   |
| 6                   | Debt Doesn't Proceed - Process ends                           |                                |                             |   | A  |   |
| 7                   | Debt proceed - Complete Form SC776 (Deduction on wages form)  | C                              |                             |   | R  |   |
| 8                   | Approves form SC776 - Deduction on wage is applied            | I                              |                             |   |  | A   |
| 9                   | Form SC776 is not approved - Deduction on wage is not applied | I                              |                             |   |  | A   |

|   |             |
|---|-------------|
| R | Responsible |
| A | Accountable |
| C | Consulted   |
| I | Informed    |

## B.8 Voluntary Compliance

|                      |                                  | Taxpayer | Supervisor - Payment Application Section | Collector - Collectorate |
|----------------------|----------------------------------|----------|--|--------------------------|
| KEY ACTIVITIES       |                                  |          |  |                          |
| Payment Applications |                                  |          |  |                          |
| 1                    | Send payment                     | R        |  |                          |
| 2                    | Receive Payment                  |          |  | R                        |
| 3                    | Process payment in system PRITAS |          | R  | R                        |
| 4                    | Generate Receipt                 |          | R  | R                        |
| 5                    | Applies payment                  |          | R/A                                      | R/A                      |

|          |             |
|----------|-------------|
| <b>R</b> | Responsible |
| <b>A</b> | Accountable |
| <b>C</b> | Consulted   |
| <b>I</b> | Informed    |

## B.9 Taxpayer Services

| KEY ACTIVITIES              |  | Taxpayer | Clerk - Receptionist | Clerk - General Guidance | Contribution Technician - Account Analysis | Auditor - Contributions Guidance | Director - Taxpayer Services Bureau |
|-----------------------------|--|----------|----------------------|--------------------------|--|----------------------------------|-------------------------------------|
|                             |  |          |                      |                          |  |                                  |                                     |
| <b>1 Immediate Response</b> |  |          |                      |                          |  |                                  |                                     |
| 1.1                         | Submit consultation                                  | R        |                      |                          |  |                                  |                                     |
| 1.2                         | Receive consultation                                 |          | R                    |                          |  |                                  |                                     |
| 1.3                         | Evaluate consultation                                |          | R                    |                          |  |                                  |                                     |
| 1.4                         | Assign number on Q-matic                             | I        | R                    |                          |  |                                  | I                                   |
| 1.5                         | Receive consultation                                 |          |                      | R                        |  |                                  |                                     |
| 1.6                         | Evaluate consultation                                |          |                      | R                        |  |                                  |                                     |
| 1.7                         | Verify necessary evidence                            | C        |                      | R                        |  |                                  |                                     |
| 1.8                         | Complete Evidence - Solved Consult                   | I        |                      | A                        |  |                                  | I                                   |
| 1.9                         | Response is not available - Assign number on Q-matic | I        |                      | R                        |  |                                  | I                                   |
| <b>2 Account analysis</b>   |  |          |                      |                          |  |                                  |                                     |
| 2.1                         | Receive consultation                                 |          |                      |                          | R  | R                                |                                     |
| 2.2                         | Evaluate consultation                                |          |                      |                          | R  | R                                |                                     |
| 2.3                         | Verify necessary evidence                            | C        |                      |                          | R  |                                  |                                     |
| 2.4                         | Solved Consult                                       | I        |                      |                          | A  | A                                | I                                   |

|   |             |
|---|-------------|
| R | Responsible |
| A | Accountable |
| C | Consulted   |
| I | Informed    |

## B.10 Declarations

| KEY ACTIVITIES |  | Taxpayer / Representative | Clerk - Internal Revenue area | Assistant Secretary of Internal Revenue | Supervisor - Payment Application Section | Clerk - Tax Assistance and Specialized Consults | Supervisor Administrative Reviews Division | Contribution Specialist | Director - Tax Assistance and Specialized Consults |
|----------------|--|---------------------------|-------------------------------|---|--|---|--|-------------------------|--|
| Declarations   |  |                           |                               |   |  |   |  |                         |  |
| 1              | Present Request for administrative letter                        | R                         |                               |   |  |   |  |                         |  |
| 2              | Receive request for Declaration and Paycheck                     |                           | R                             |   |  |   |  |                         |  |
| 3              | Register Case and payment  |                           | R                             |   |  |   |  |                         |  |
| 4              | Send Check to Payment Application Process                        |                           | R                             |   | A  |   |  |                         |  |
| 5              | Send Case to Taxpayer Assistance and Specialized Consults Bureau |                           | R                             |   |  |   |  |                         |  |
| 6              | Receive and register case in log                                 |                           |                               |   |  | R   |  |                         |  |
| 7              | Send case documents to the Supervisor                            |                           |                               |   |  | R   | I  |                         |  |
| 8              | Receive case documents   |                           |                               |   |  |   | R  |                         |  |
| 9              | Distribute and Assign case documents                             |                           |                               |   |  |   | R  |                         |  |
| 10             | Analyze case documents   | C                         |                               |   |  |   | C  | R                       | C  |
| 11             | Prepare memorandum   |                           |                               |   |  |   |  | R                       |  |
| 12             | Receive memorandum   |                           |                               |   |  |   | R  |                         | CI   |
| 13             | Receive and approve memorandum                                   |                           |                               | A                                       |  |   |  |                         |  |
| 14             | Notify and deliver memorandum to taxpayer                        |                           | R                             |   |  |   |  |                         |  |
| 15             | Deliver Memorandum   | I                         |                               |   |  |   |  |                         |  |

|   |             |
|---|-------------|
| R | Responsible |
| A | Accountable |
| C | Consulted   |
| I | Informed    |



