

PD-BAT-213  
44747

OMNINAX INTERNATIONAL INC.

Contract Number : 518-0036-C-00-5063-00

Project Number : 518-0042

Project Title : FISCAL ADMINISTRATION DEVELOPMENT

1ST SEMIANNUAL REPORT ON ADVISORY SERVICES

August 17, 1985 - March 31, 1986

## I. SUSTANTIVE REPORT

### A. Project Status

#### 1. General

The Chief of Party arrived in Quito on Saturday, August 17, 1985, followed by the Audit Advisor on September 12 and the Processing Systems Advisor on October 5. The long term Returns Compliance and Delinquent Collections Advisor to the present date has not been filled; the advisor originally selected for this area, at the last moment could not come to Quito due to health problems. However the work of this long term advisor has been advanced through utilization of two TDY'S one from September 7, - December 6, 1985 and the other from January 11, - March 28, 1986. With the full advisory complement on board by early October, and to put the semi-annual reporting on a consistent basis, the first semi-annual report actually covers a period of approximately seven and a half months of advisory activity.

An early step in the Project was the establishment of the high level committee, which along with the designated coordinator of the project, has responsibility for overseeing for the Director General the implementation of the project. Also, the project strategy was immediately translated into Spanish and thoroughly reviewed with the Committee. Subsequently, the Work Plan for the project for 1986 was developed and transmitted by the Director General to the USAID/Quito in December, 1985.

The overall collections achieved from the carryover of programs put into place in the former pilot project and the renewed emphasis engendered by the present project have been excellent. In 1985 collections of 49,114,589,500 sucres were 49.5% over 1984 collections in current sucres or 19% higher in constant sucres. During the first two months of 1986 collections have continued at a brisk rate, with 12,322,809 sucres collected which is 85% over the same period in the prior year in current sucres or 52% in constant sucres. In constant terms over 1984, collections are 43% higher for the same period.

#### 2. Revenue Generation Activities

##### a. Improved Collections and Returns Compliance Systems

The new professional corps contemplated to upgrade performance in these two functional areas was recruited, trained and began operations early in the project.

They were deployed in two phases: the group to work in the Sierra provinces began on October 15, 1985 and those to work the provinces in the Litoral began on November 1. A total of fifty agentes tributarios were recruited, but a few have resigned leaving a total of 45 in operation. These, to date, have been paid from the loan funds of the project. Unanticipated problems occurred in the mechanisms for making timely salary payments to the agentes, both within USAID and with the Ministry of Finance, with a delay of three months in paying salaries for December through February. To ease this situation Omnimax International, Inc advanced a total of 257,400 sucres to the agentes in the earlier group. Happily, these problems have now been resolved and salary payments are now current.

The initial activities of the new corps have been directed to the collection of delinquent accounts. In the first four months of activity the new group has turned in a remarkable performance; their efforts have resulted in the collection of 535 million sucres in outstanding delinquent accounts.

During the first quarter of this year a program was developed for transferring the returns compliance function from the Audit Division to the new corps of agentes tributarios. Procedures have been prepared to put the program into effect, beginning with the high non-compliance sales tax (transacciones mercantiles). A short training program has been developed for supervisors and agentes to be given in April to prepare them for their new duties and for the specific program to be undertaken. Implementation is planned for May this year.

In view of the increase workload anticipated and the high priority to be given to both these programs in support of the extremely high goal set for 1986 (almost 89 billion sucres), USAID has been requested to support an additional 20 agentes. If approved, these together with those for the five vacancies will be recruited and trained during the next period.

b. Improved Audit System

A series of sessions were conducted with all audit supervisors in the Quito area covering supervisory responsibilities, means for increasing productivity and suggested projects for improving audit operations. - This was done early in the project as a means to begin the conversion of supervisory concepts concerning managing the audit program.

The pilot programs, which were initiated in the earlier project, were reviewed and actions were taken to improve results. This consisted mainly in giving emphasis to steps required to meet the objectives of these two projects, i.e. increasing audit coverage and incorporating non-filers. Improved management of these programs increased productivity during the final months of the year and achievements for 1985 were:

- PP-1 - 698 taxpayers audited produced S/. 125.0 million;
- PP-3 - 669 taxpayers audited produced S/. 263.4 million.

To provide expanded audit coverage and an early impact in revenue generation an information document matching program was initiated. Information has been extracted in payments made such as commissions, rents, dividends, interest, etc., from which lists are being developed showing taxpayers who have received such income but who may not have reported current amounts in their returns or who may not have filled tax returns. Other information sources such as government contractors is also being utilized. It is anticipated that almost 3,700 audit leads will be generated by the program which will broaden considerably the audit impact for this year. The development of these leads are nearing completion and it is anticipated that the program will be put into execution during April.

A program has been developed to shift the groups of auditors now working in the returns compliance pilot program ( extended from the former pilot project ) to perform audits on non-filers referred to Audit by the agentes tributarios. It is anticipated that the latter will assume this function in May and an important support to the new returns compliance program will be the prompt audit of such referrals. An anticipated 2,000 referrals will provide additional impact by means of quick audits.

Development is underway for improved audit planning and monitoring report and selection of returns for audit. Adjustments will be required in the current plan for 1986 and will take into account the distribution of resources and the manner in which they will be employed. Sources of returns will be taken into account so that in the future numbers and types of returns will be known at the beginning of the year.

### 3. Organizational Improvement Activities

#### a. D.G.R. Reorganization

Using as a point of departure the organizational study completed during the former pilot project ( in which the present Chief of Party participated ), thorough review and discussions were held with the High-Level Committee, with the Director General and with most departmental chiefs of the D.G.R. This occurred over a several months period, resulting in the submission to the Director General in February of the completed study together with the proposed Ministerial Agreement for the Minister's signature. The latter is now with the Minister and about ready to begin implementation. The latter will be accomplished carefully through a series of five stages within the next two years and will include intensive training in management principles and techniques, motivational seminars and detailed preparation at each stage of implementation. - The approved organization provides the structure to accomplish the project goal for this element of the project and when implemented will have the following characteristics:

- Clear separation of national management from operational activities.
- Clear definition and separation of the principal functions of tax administration.
- An appropriate decentralization of operations.
- A well developed system of functional management.

A plan for acquisition of furniture and equipment for the first two phases of the reorganization has been developed.

#### b. Restructured Processing Systems

##### Processing:

Efforts for the improvement in tax administration processing were focussed principally in 5 areas:

- 1) Strengthening of the technical and programming support of Dirección de Organización y Sistemas (Ministry of Finance Computer Center).
- 2) Strengthening of Dirección General de Rentas mini computer techniques capabilities.
- 3) Improving institutional relationship between DOS and DGR.

- 4) Plan for upgrading mini computer hardware capabilities.
- 5) Intermediate mechanized systems for tax auditing and collection programs.

Discussions with the Director of the computer center led to the decision that a specific system and programming group be organized to support Rentas. The group was established in January. The Chief of this group attended the tax reorganization seminar and also the four week intax seminar in the U.S. The group also received several training sessions by the processing advisor.

Strengthening of the Dirección General de Rentas mini computer center was accomplished by contracting additional data input personnel thereby relieving programmers and systems personnel to concentrate on more appropriate tasks. A decision to change the central computer unit from NCR 9100 to a NCR TOWER 32 system will introduce additional flexibility into the Dirección General de Rentas mini computer center. Personnel from DGR attended several UNIX seminars and courses during the first semester 1986.

Improving institutional relationship between the Ministry of Finance Computer Center and Dirección General de Rentas has been made by defining specific areas of interest and future development in line with the overall project strategy.

Plan for the improvement of the mini computer system in Dirección General de Rentas was complete and put in motion during the period. The NCR TOWER 32 was selected to replace the central processing unit of the mini computer system. The TOWER supports the universal UNIX operating system and has excellent computer to computer capabilities. NCR has agreed to accept the original NCR 9100 as partial payment for the newer TOWER thus eliminating the major cost of equipment converting. All disk drives, printer and other terminals are compatible with the newer TOWER thus assuring the original investment. Two additional terminals have been ordered by DGR increasing the new TOWER computer capacity to 6 terminals.

Intermediate systems for tax collections and auditing were implemented and are being processed by both DGR and DOS computer centers. A sales tax program for 1985 was accomplished at both centers, in DOS for the Pichincha Province and in DGR for the rest of the country. Third party information as well as stockholder

information was programmed and processed in the DOS computer center. Also during the first six months a new RUC index system was implemented in DOS giving the RUC department of DGR for the first time the ability to investigate taxpayers by name, activity, province and status.

c. Professional Inspection Service

No activity was undertaken in this area, awaiting approval and implementation of the new DGR organization. Development in this area will come after more fundamental phases of the reorganization are installed.

d. Public Relations Program

No activity in this area other than normal sporadic efforts, awaiting establishment of the new Departamento de Difusión y Publicaciones Técnicas under the reorganization.

4. Training

Two seminars were conducted off-site at an inn away from Quito, one for top executives of the Dirección General de Rentas and one for Department Chiefs. The first for two days and the second for three days included discussions of the functions of tax administration, basic organizing and management principles, the project strategy and the reorganization being proposed for the DGR. A total of 19 managers attended the seminars.

Fifty agentes tributarios to man the new professional corps were trained in their basic functions to begin collection of delinquent accounts.

Fifteen participants completed the special 4 weeks management course given in the United States by the U.S. Internal Revenue Service.

Thirty supervisors received a two - day course in motivation arranged by the advisory group and given by CEFE (Centro de Formación Empresarial); an additional day on 1986 annual audit plan was also given.

Twenty-four tax auditor from the Quito area were given a 30 hour course in basic auditing techniques.

A comprehensive training plan for the project was developed and has been approved by the Director General. The

plan provides for various seminars and courses and the participants to be selected for such training together with quarterly schedules and expenditures over the life of the project.

## B. Plans for The Next Six Month Period

### 1. General

Collections through August are expected to reach 55 billion sucres.

### 2. Revenue Generation Activities

#### a. Improved Collections and Returns Compliance Systems

- Agentes Tributarios and Supervisors will be trained in new returns compliance program.
- Returns compliance program for sales tax will be implemented.
- 25 new Agentes will be recruited and trained.
- Continued surveillance of the initial delinquent accounts and returns compliance programs will be conducted and refinements in program and procedures will be introduced.
- The new División de Morosidad will be established and functioning under the new organizational structure.
- The five new regional Departamentos de Morosidad - will be established and the refined programs will be functioning within the pattern of the new organizational structure.

#### b. Improved Audit System

- The program for audit leads derived from the matching of information documents will be implemented.
- The program for auditing referrals from the agentes tributarios will be in operation.
- An improved planning and return selection system will be adopted for use in future years and plan adjustments made for the current year.
- A pilot Review Section will be established in the Quito area audit function.
- The new División de Auditoría Tributaria will be established and functioning under the new organizational structure.

- The five regional Departamentos de Auditoría will be established and functioning within the pattern of the new organizational structure.

### 3. Organizational Improvement Activities

#### a. D.G.R. Reorganization

- The first phase of the reorganization establishing the functional management departments at the national level will be implemented.
- The second phase of the reorganization, establishing the basic regional structure, will be implemented.
- Training to support these phases of the reorganization will be conducted (see training below).

#### b. Restructured Processing System

- The new upgraded computer will be installed and the sales tax system converted to a UNIX data base
- Plans will be developed for adding processing control of withholding Agentes to the new computer system.
- A detailed processing plan will be prepared for implementation in the 5 regions under the new organization.
- Specifications for the regional computers will be developed and procurement initiated.
- An improved RUC system will be designed and implemented.

#### c. Professional Inspection Service

No activity is planned for this area during the next period.

#### d. Public Relations Program

The Departamento de Difusión y Publicaciones Técnicas will be established under the reorganization.

### 4. Training

- A management seminar will be conducted for 20 key regional and national personnel.
- Twenty key regional and national personnel will attend the special 4 weeks management course given in the United States by the U.S. Internal Revenue Service.

- Five executives from the Ministry of Finance will attend the C.I.A.T. (Interamerican Center of Tax Administration) annual conference to be held in Buenos Aires.
- Fifteen new chiefs selected for key positions in the new organization will receive orientation seminars in their new duties.
- Forty-five agentes tributarios and twelve supervisors will be trained in the new returns compliance program.
- A seminar on processing systems will be conducted for 5 regional processing chiefs and several key national processing personnel.
- Five computer programmers will be trained in Cobol and Computer language C.
- Twenty-five auditors will receive training in basic auditing techniques.
- Ten auditors will receive instructor training and course development to serve as an instructor corps for the audit function.

II. ADMINISTRATIVE REPORT

A. Expenditures

<u>Category</u>	<u>Budget Amount</u>	<u>Expenditures</u> <u>(6/1.85 - 3/31/86)</u>
Salaries & Wages	\$ 1,559,775	\$183,229.15
Fringe Benefits	99,937	31,529.68
Administrative Costs	54,685	7,653.32
Differential & Allow.	355,540	34,060.19
Travel & Transp.	373,084	40,948.83
Other Direct Costs	102,030	45,674.85
Profit of Fee	254,505	34,305.09
GRAND TOTAL	<hr/> \$ 2,799,556	<hr/> \$377,401.09 <hr/>

B. Personnel Employed

1. Field (Aug. 17, 1985 - March 31, 1986)

a. Long Term Advisors

<u>Advisor</u>	<u>Work - Months</u>
Chief of Party	7.5
Audit	6.5
Processing Systems	6.0
Delinquent Collection & Returns Compliance*	6.0
Total Long Term	<hr/> 26

\* 2 short term advisors  
utilized due to unavail-  
ability of long term  
advisors.

b. Short Term Advisors

Audit	1.25
Training	1.0
Management	0.5
Total Short Term	<hr/> 2.75

c. Local Hire Support

Secretary	7.0
-----------	-----

TOTAL FIELD 

---

 35.75

2. Home Office Support (July 1, 1985 - March 31, 1986)

Company President	3.2
Vice President Planning & Budget	3.0
Office Clerical support	7.2

Total Home Office 

---

 13.4

TOTAL PERSONNEL EMPLOYED 

---

 49.15