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The development of a new tax recovery system (PSRM) and onboarding of claimants

1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the development of the Danish Ministry of Taxation's new tax recovery system, the PSRM, and the progress in onboarding claimants.

2. The development of the PSRM system and onboarding claimants to the system are two important elements in the Ministry of Taxation's effort to restore tax recovery and ensure proper, effective and legal recovery of citizens' and companies' debt to the public sector. Following a number of serious errors, including illegal recovery of payments, the government decided, in 2015, to close down tax recovery through the EFI/DMI system then in operation. Hence the need to restore tax recovery. Since the closing of the former system, the ministry has used the DMI module for receiving and filing claims, and for limited tax recovery activities. Since 2015, public arrears have grown steadily and reached approx. DKK 118 billion by the end of 2018.

3. With the approval of Document Q 8/9 2016, the Danish Finance Committee under the Folketing (Danish parliament) approved the purchase of a new tax recovery system within a financial framework of DKK 1.1 billion which would also cover operation and further development of the system up to 2019. It appears from the document that the Ministry of Taxation expected the development of the system to be completed at the end of 2018. The new system is intended to support the ministry in its statutory recovery of public debt. Every year, the ministry receives claims for recovery with a total value of approx. DKK 20 billion. When the PSRM system is fully implemented, it will serve as the backbone of the ministry's recovery activities and assist the ministry in its effort to recover as much as possible of the debt owed to the public sector. In light of the growth in public debt, among other things, the ministry opted for agile development of a new system, because it enables fast and phased deployment and use of the system through a number of releases. The agile development approach means that detailed system requirements are defined and prioritised continuously in compliance with the ministry's requirements to the system based on current legislation and the need for effective general support of tax recovery activities.

PSRM
PSRM (Public Sector Revenue Management) is an American IT system tailored to support tax administration.

EFI/DMI system
The EFI system is the government's former tax recovery system and the DMI is the debtor module of the EFI system. They were both phased in, beginning in 2013.

Claim
A claim is a payment that a person, company or public authority is entitled to receive from another person or company. Public arrears consist of many different types of claims like, for instance, outstanding taxes, penalties imposed by the police, television license fees and parking tickets.

Release
A software release generally constitutes the initial generation of a new or upgraded application for a system.

Claimants
This is the collective name for the approx. 800 institutions and public bodies with a statutory right to transfer claims for enforcement. Among these institutions are the Danish Tax Agency, the Danish National Police, Denmark's Broadcasting Corporation and the Danish municipalities.

Claimants are to be onboarded in parallel with the development of the PSRM system. Only when the claimants have been onboarded, can the system be used for tax recovery. The Ministry of Taxation is responsible for onboarding, which takes place in collaboration with the claimants. When the PSRM system is fully implemented, it will be required to collect debt on behalf of approx. 800 claimants. In March 2019, the ministry informed the Fiscal Affairs Committee under the Folketing that onboarding was a key milestone in the effort to restore tax recovery, and that the ministry expected all claimants to be onboarded by mid-2019. Onboarding costs incurred by the ministry are covered outside the financial framework of DKK 1.1 billion. Experience with poor data quality in the EFI/DMI system has made it particularly important for the ministry to ensure that all claims comply with a number of specific regulatory requirements.

Clear quality requirements have governed the Ministry of Taxation's development of the new recovery system and onboarding, but time has also been of the essence due to the growing debt.

Only when the PSRM system has been fully developed and the individual claimants have been onboarded, can the Ministry of Taxation begin to move claims, and thus the accumulated debt, from the DMI module to the PSRM system. It follows that developing the system and onboarding all claimants are necessary steps in the ministry's effort to restore the recovery of public arrears.

4. The purpose of the study is to assess whether the Ministry of Taxation has met its own expectations concerning progress in the development of the PSRM system and onboarding. The report answers the following questions:

- Has the Ministry of Taxation ensured that the PSRM system supports the ministry's tax recovery activities?
- Has the Ministry of Taxation ensured that onboarding has taken place as expected?

Rigsrevisionen initiated the study in September 2018, and it covers the period from September 2016 up to and including February 2019.

Conclusion

It is Rigsrevisionen's assessment that a number of important issues concerning both the development of the new recovery system, the PSRM, and onboarding, remained unresolved at the beginning of 2019. The Ministry of Taxation's onboarding activities are considerably delayed compared with the ministry's expectations and plans, and it is currently uncertain when all claimants will be fully onboarded and able to use the PSRM-system. Due to the lack of progress, onboarding may continue well into 2020, and the ministry may therefore not be able to collect debt on behalf of all claimants before the end of 2020 or later.

Firstly, the study found that the Ministry of Taxation had failed to ensure that when the fourth and last software release was put into operation at the beginning of 2019, the PSRM system would be able to support fully the ministry's recovery effort.

The PSRM system did not have the functionality required to support all recovery processes, as these were defined by the Ministry of Taxation. For instance, the PSRM system was unable to support enforcement by execution, nor was it possible to withhold debt from all types of income. Furthermore, the system was affected by errors, the consequences of which had to be rectified manually. In mid-2019, issues concerning the extent of development work required and the associated financial costs remain unresolved.

It should be noted, though, that with the PSRM system, the Ministry of Taxation now has a system that can recover debt; at the beginning of 2019, the system recovered debt through enforcement by execution or default notices on behalf of the few claimants that were set up as users of the system like, for instance, Denmark's Broadcasting Corporation. However, since autumn 2018, the PSRM system has encountered various problems related to stability and operational capacity, in spite of the moderate number of debts recovered. The ministry has therefore taken steps to implement remedial actions and is expecting the system to operate at an acceptable level in the third quarter of 2019. The ministry has not carried out tests of the system under peak load conditions and has therefore not adequately ensured that the PSRM system is capable of handling the expected volume of transactions. The ministry has taken steps to enable testing of the system's performance in terms of volume and peak load.

Secondly, the study found that the Ministry of Taxation had not ensured that onboarding took place at the pace expected and planned by the ministry.

The Ministry of Taxation has not onboarded the planned number of claimants in 2018, and the ministry has therefore been forced to postpone the onboarding process for the majority of these claimants to 2019, and a few to 2020. The reason for the delay is, among other things, technical problems, new knowledge of the claims held by the claimants and the quality of data, and the fact that some claimants have wanted to postpone their onboarding. Several of these factors have also applied to the ministry's own claimants. The ministry has no clear picture of the amount of work left in connection with onboarding, and it follows that it is therefore also unclear to the ministry how much time it will take to complete the onboarding process. Thus, it is uncertain, when the ministry will be able to complete the onboarding process, which is a key milestone in restoring debt recovery. The uncertainty also applies to the Ministry of Taxation's own onboarding activities, as well as the onboarding of claimants, where the ministry has a coordinating role.

The Ministry of Taxation has informed Rigsrevisionen that the implementation of the system has been subject to the fundamental condition that the full scope and complexity of onboarding would only become known in pace with the progress of the system development. Rigsrevisionen recognises the difficulties of planning ahead in great detail in such a large and complex project. However, there has been and still is too much uncertainty about the ministry's plans for onboarding.

The Ministry of Taxation has informed Rigsrevisionen that status of the project in mid-August 2019 is that development activities will continue into the fourth quarter of 2019, for instance, concerning enforcement by execution. The ministry has also stated that 47 claimants have now been set up as full or partial users of the PSRM system, including the ministry's KOBRA-system that has been partially set up. As from May 2019, the ministry has initiated recovery of considerably more claims than before. Last, the ministry has informed Rigsrevisionen that it is currently revising the onboarding plan.