Department of Taxation

Presentation to Senate

Committee on Economic Development and Technology

Committee on Ways and Means

December 6, 2011

9:00 a.m.

Agenda

- Strategic Plan
- Where We Started
- Major Challenges
- Transition Report - Update
- Short-Term Improvements
- The Way Forward

Strategic Plan

Strategic Plan

Mission:

To administer the tax laws in a fair, consistent and uniform manner and preserve the public trust

Vision:

Policies and procedures to ensure efficient and effective collection of revenue.

Objectives:

People

Processes

Productivity

Where We Started

Where We Started

Where We Started

- A highly ***politicized*** and ***siloed*** work environment;
- Supported by ***inefficient*** processes and a ***complicated*** Tax Information System costing ***over $80 million*** over the course of 10 years;
- With ***inflexible, outdated, incomplete and problematic*** functionality (even to the present day);
- That contributed significantly to operational issues, including:
  - ***Delays*** in processing forms & remittances;
  - Account ***imbalances*** and substantial receivables and payables to be reconciled;
  - ***Errors*** in financial reporting; and
  - ***Inefficient utilization*** of IT and Department resources.

Progression of Operations Assessment

1. December 2010
State Auditor issued a report, entitled "Management and Financial Audit of Department of Taxation"

2. January 2011
New Administration initiated assessment of operations, including the state of technology

3. February 4, 2011
Senate Ways and Means Committee issued Spec. Com. Rep. No. 2, criticizing past management of IT operations

4. March 3, 2011
DOTAX submitted its Transition Report to the Senate; A Modernization Task Force is launched

5. March 9, 2011
DOTAX presents Transition Plan before the Senate Ways and Means Committee

6. Late March 2011
Directors' Office advised of issues relating to TAT allocations in STO and remedial measures are explored

7. April 13, 2011
Additional concerns re: Statement of Tax Operations (STO) are identified; Director's Office commissions an internal review

8. Late April 2011
Interim processing improvements are implemented; IT system review is commissioned

9. May 10, 2011
Internal review of STO is completed, revealing serious concerns

10. May 16, 2011
April STO is issued with corrective adjustments re: TAT allocations

11. Late May 2011
IT Services Office and System Administration Office complete internal review of IT system

12. June 3, 2011
Department announces independent review of revenue reporting and accounting policies

13. June 15, 2011
DOTAX participates in State baseline assessment of State IT infrastructure

14. June 30, 2011
Contract with outside vendor, CGI, terminates

15. July 27, 2011
External audit of revenue accounting practices begins

16. August/ September, 2011
Department works with CIO and Business Transformation Officer re: Modernization

17. September 29, 2011
State issues "Baseline of Information Management and Technology and Comprehensive View of State Services"

18. November 14, 2011
Business Process Improvement Project Begins

19. December 2011
Anticipated release of final external audit report

20. 1st Quarter 2012
Soft launch of electronic filing improvements

Key Events

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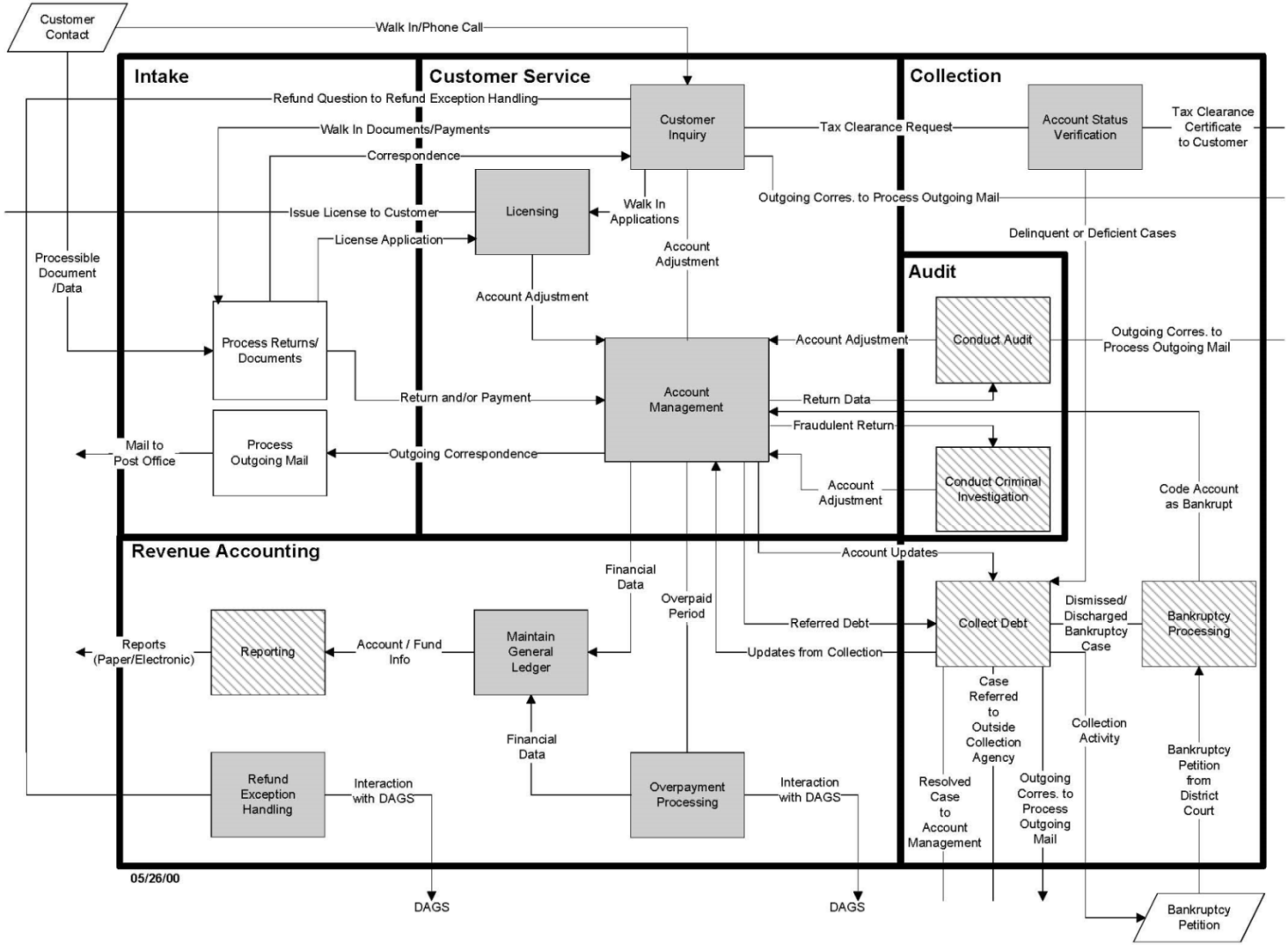
Business Process Improvement (BPO) Project begins

Major Challenges of the Current System

Complicated Businesses Processes



Implementation of Major Tax Law Changes

1. Major Tax Laws Changes

Rules Office

1 month →

2. Tax Forms Modification

Rules Office

1-2 months →

3. System Impact: Analysis & Requirement

Tax Law Changes Team or System Administration Office

1-3 months →

4. Computer Programming

Information Technology Office

3-6 months ↓

5. Testing

Tax Law Changes Team or System Administration Office

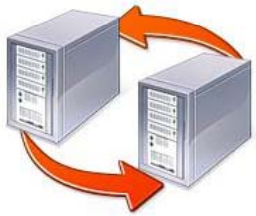
← **6-9 months**

6. Controlled Production

Tax Law Changes Team or Quality Assurance Team

← **3 months**

7. Full Implementation



ITIMS

Total time to implement tax law changes:
15 to 24 months

Examples of Existing Challenges

- **IT system is <u>not</u> integrated**
  - ITPS (tax processing system) and ICS (collections system) have separate databases

- **System-related mismatches of financial entries between ITPS (tax processing system) and Revenue Accounting system**
  - Each mismatch can involve significant amounts of money and require manual intervention

Examples of Existing Challenges

- **Significant delays in processing paper returns and remittances**
  - Processing currently requires multiple manual steps prior to uploading of returns to system and depositing of checks
- **Limited data analytics for compliance activities**
- **Insufficient reporting capabilities**

Examples of Existing Challenges

- **High Maintenance Systems**
  - Daily maintenance and implementation of Tax Law Changes (TLC) requires extensive programming and testing work and significant staff time despite limited resources

- **Security**
  - Improved security is needed to protect state revenue

Transition Report Update

Transition Report Update

- **Project management**
  - External solicitation for temporary project manager was unsuccessful; Currently hiring full-time PM
  - IT Officer served as project manager and successfully managed transition in close coordination with the System Administration Office

- **Knowledge Transfer**
  - ITIMS technical documentation was received and hands-on training was provided

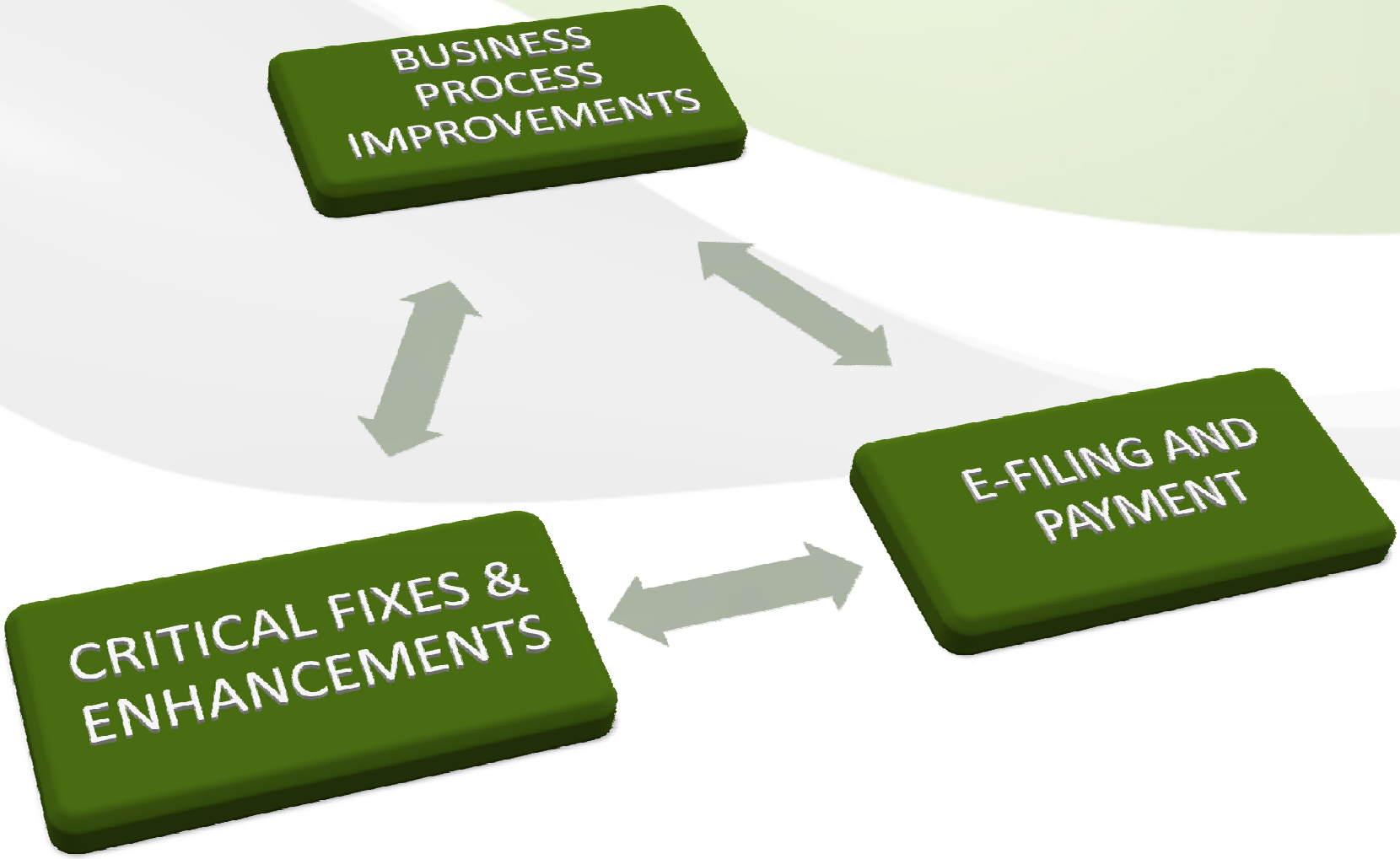
- **Completion of High-Priority Projects**
  - DataCap knowledge transfer – completed
  - Critical revenue accounting incidents – completed
  - Miscellaneous Tax Implementation – completed

Transition Report Update

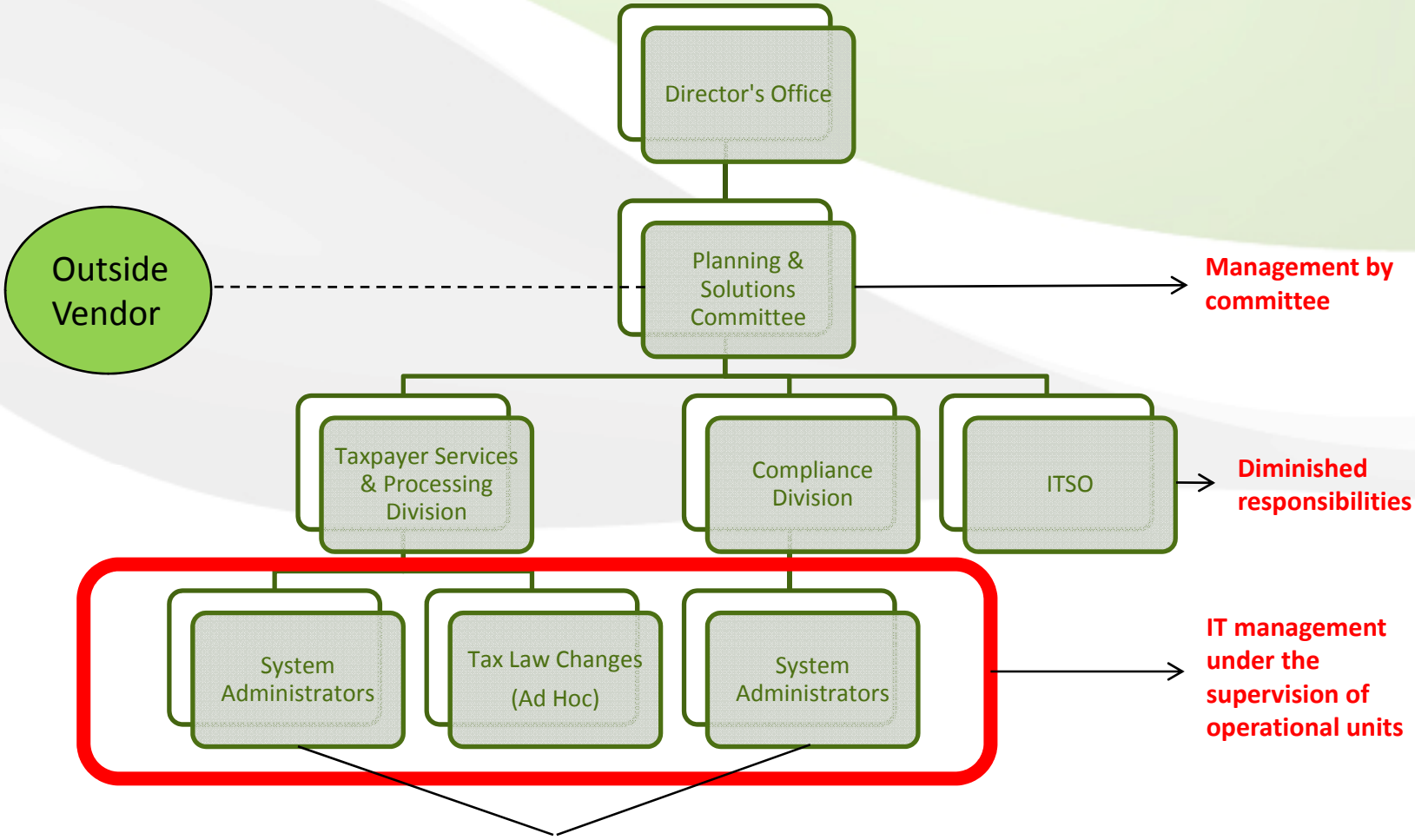
- **Clarify reporting channels and restoration of oversight within Director's Office**
  - Completed
- **Additional Staffing to ITSO**
  - Reorganization required and completed
  - Vacancy announcements for all positions have been posted
- **Consultation with Attorney General**
  - Ongoing
- **Long-Term Strategic Plan**
  - Modernization Task Force gathered information from key stakeholders
  - Information was provided to OIMT in connection with baseline assessment and coordinated planning

Short-Term Improvements

Overview of Short-Term Improvements



Prior IT Management Processes



NOTE: The Organizational Chart places System Administration directly under the Director's Office

Current Management Of IT Processes

DOTAX

Director's Office

→ Prioritization

***Modernization is coordinated with the Office of Information Management and Technology (OIMT)**

1. ITSO
2. System Administration
3. Tax Law Changes

→ Project management & coordination

User support & feedback from operational units

→ Suggestions, feedback & improvements

Expediting The Processing of Returns with Payments

Returns
Collection
Audit
Customer Inquiry
Neighbor Islands

→

Receive, Sort & Open Mail

Receiving & Sorting Section

→

Edit & Batch

Document Preparation Section

→

Data Entry or Imaging

Data Entry/IIS Section

↓

Electronic Data Storage

ITPS

→

Checks Deposited

Monetary Control Section

ELF/JELF

→

EFT

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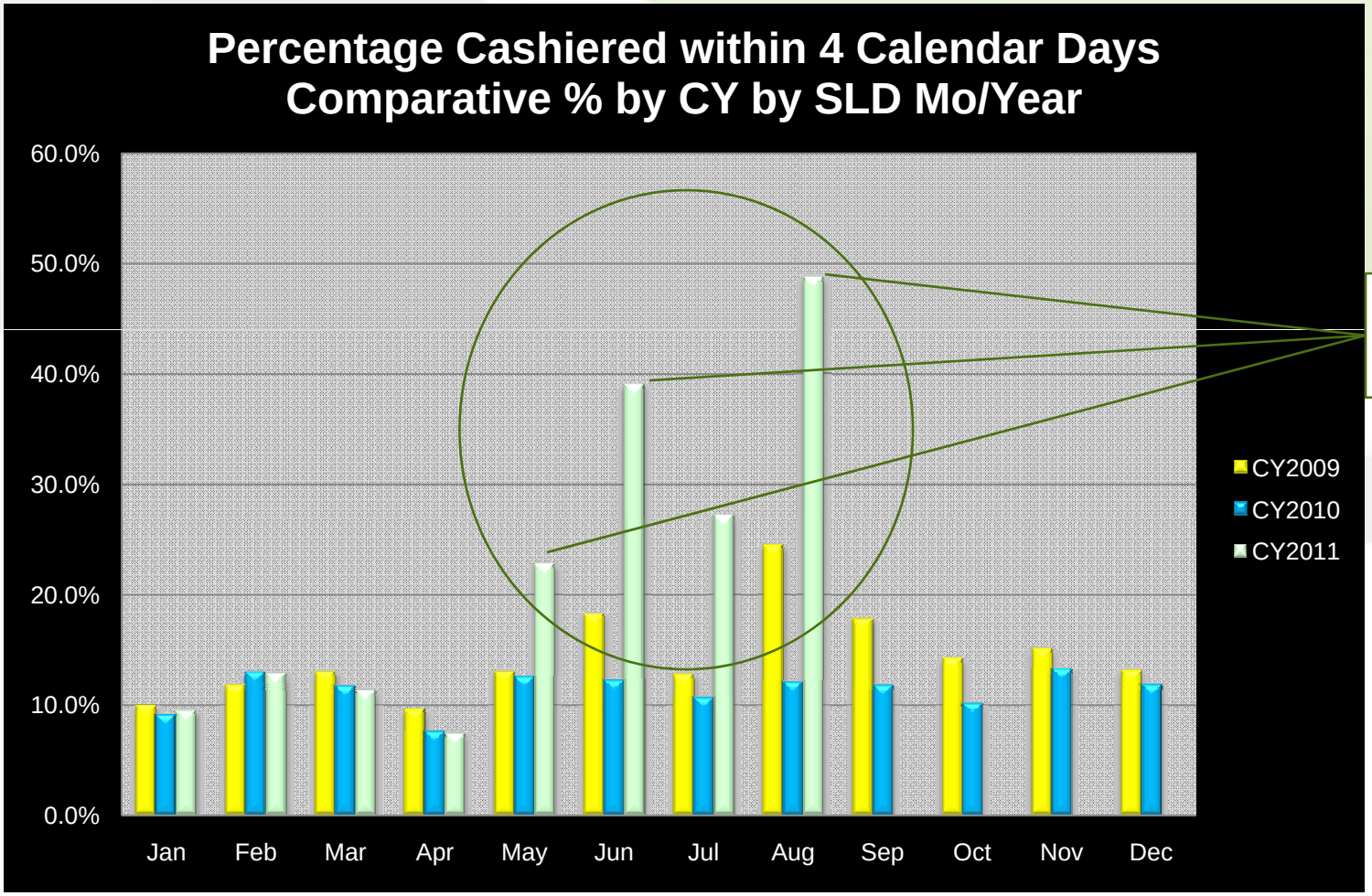
Updated by TS on 04.07.11

Improvements Have Already Been Made



Significant short-term improvements have already been made!

Other Examples of Improvements

- **Automated Tax Clearance Processing**
  - Hawaii Compliance Express tax clearance processing automated for Act 190 compliance and increased volume
  - Potential for expansion to other tax clearances via ELF

- **Suspicious Filer Exchange Program**
  - Prevents release of potentially fraudulent refunds to taxpayers identified by other states as claiming suspicious refunds

- **Ongoing Non-Filer Program – 2010 GE Annual**
  - Facilitates voluntary compliance of filing requirements

Planned E-Filing Improvements (Cont.)

- **Internet Bulk Filing**
  - Allows mass filing of GE-45, GE-49, HW-14 via electronic file upload
  - Reduces the volume of paper filings
  - Streamlines processing with the elimination of manual handling
  - Future expansion to other forms
- **Modernized Electronic Filing (MeF)**
  - Increases electronic filing eligibility for individual income tax returns
  - Supports more worksheets/schedules via pdf attachments and supports payments
  - Allows for increased return data capture for possible compliance utilization
  - Potential for expansion to business income tax returns

Planned E-Filing Improvements (Cont.)

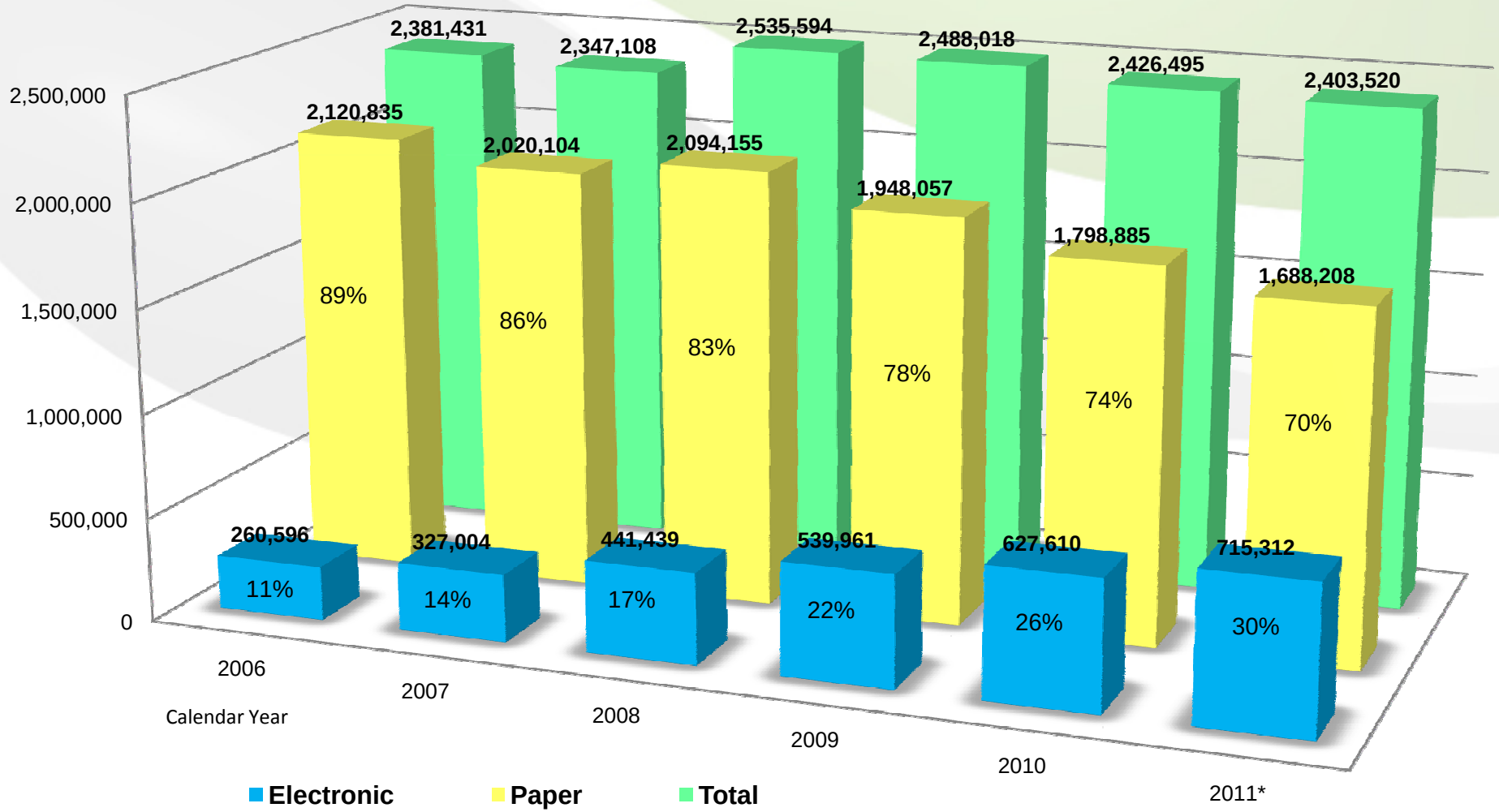
- **Electronic Filing (ELF) N-11 (Individual Income Tax – Resident)**
  - Allows for the electronic filing of N-11 returns via an Internet-accessible web service
  - Computational validations will reduce math errors on filed returns
  - Reduces the volume of paper filings
  - Streamlines processing with the elimination of manual handling

- **Improved marketing of electronic filing**

E-Filing Objective

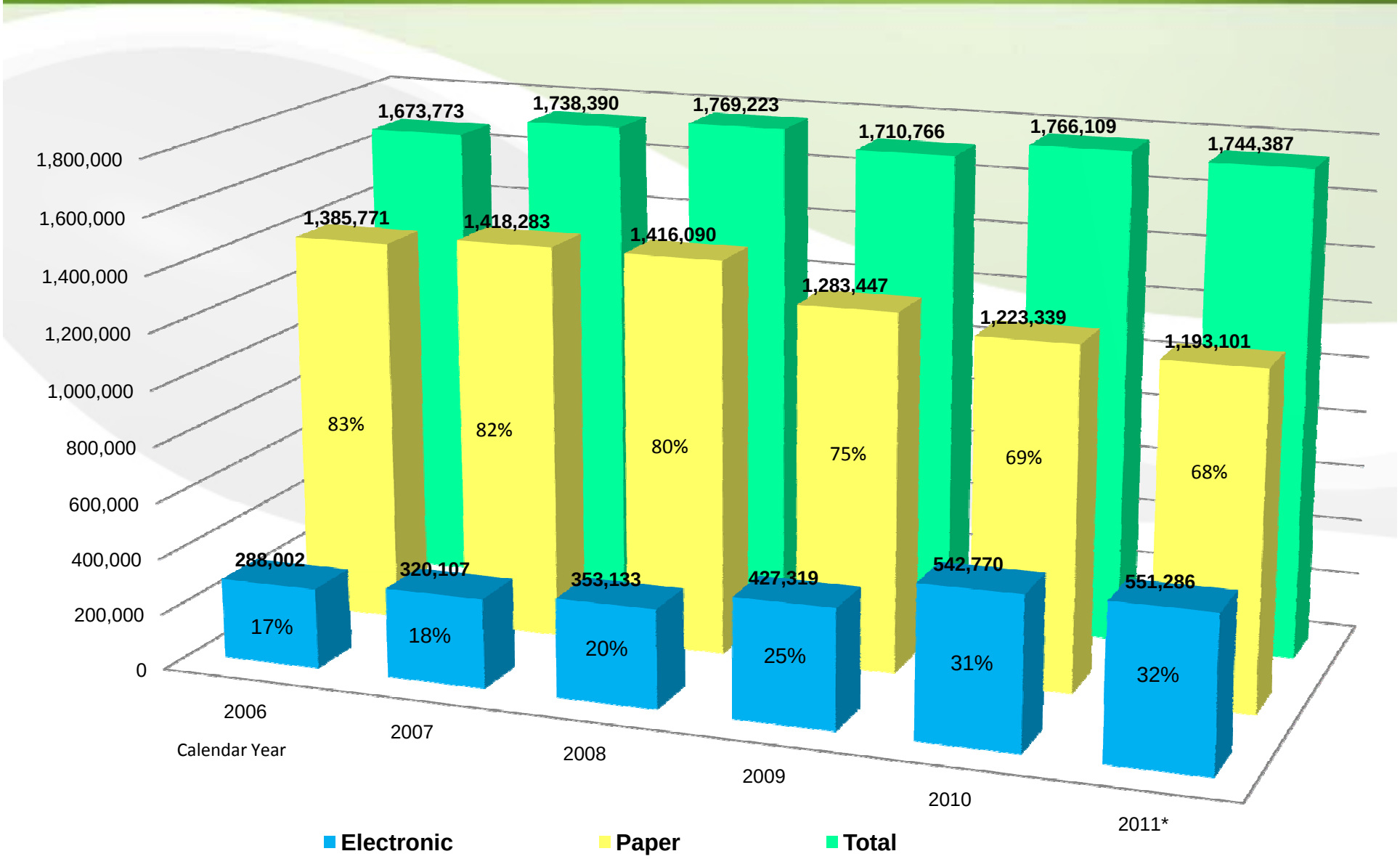
70% electronic filing adoption by 2014

Returns Processed



*2011: Year-to-date as of 12/5/11

Number of Payments Processed



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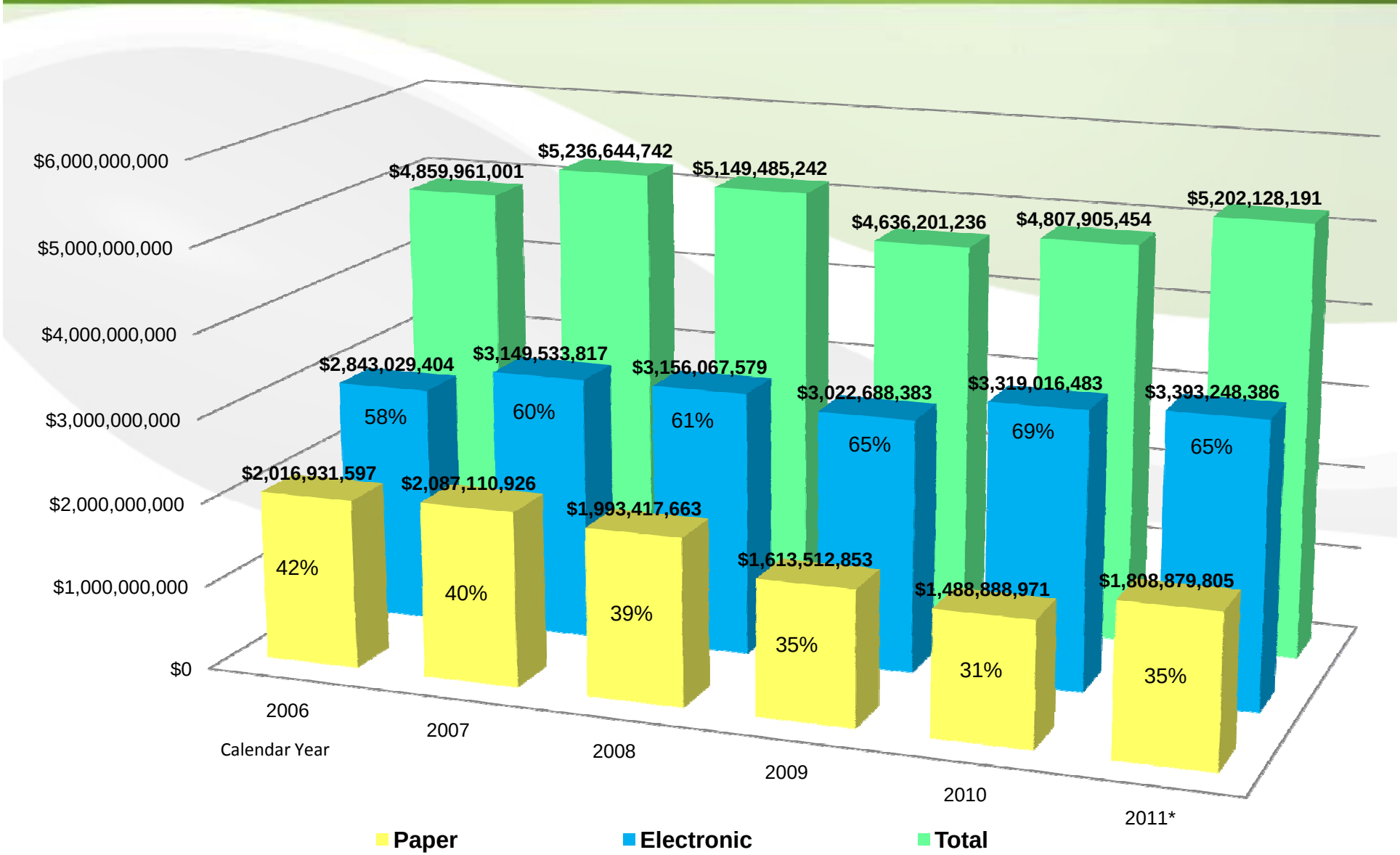
Amount of Payments Processed By Method



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Return On Investment

Return on Investment by Modernizing

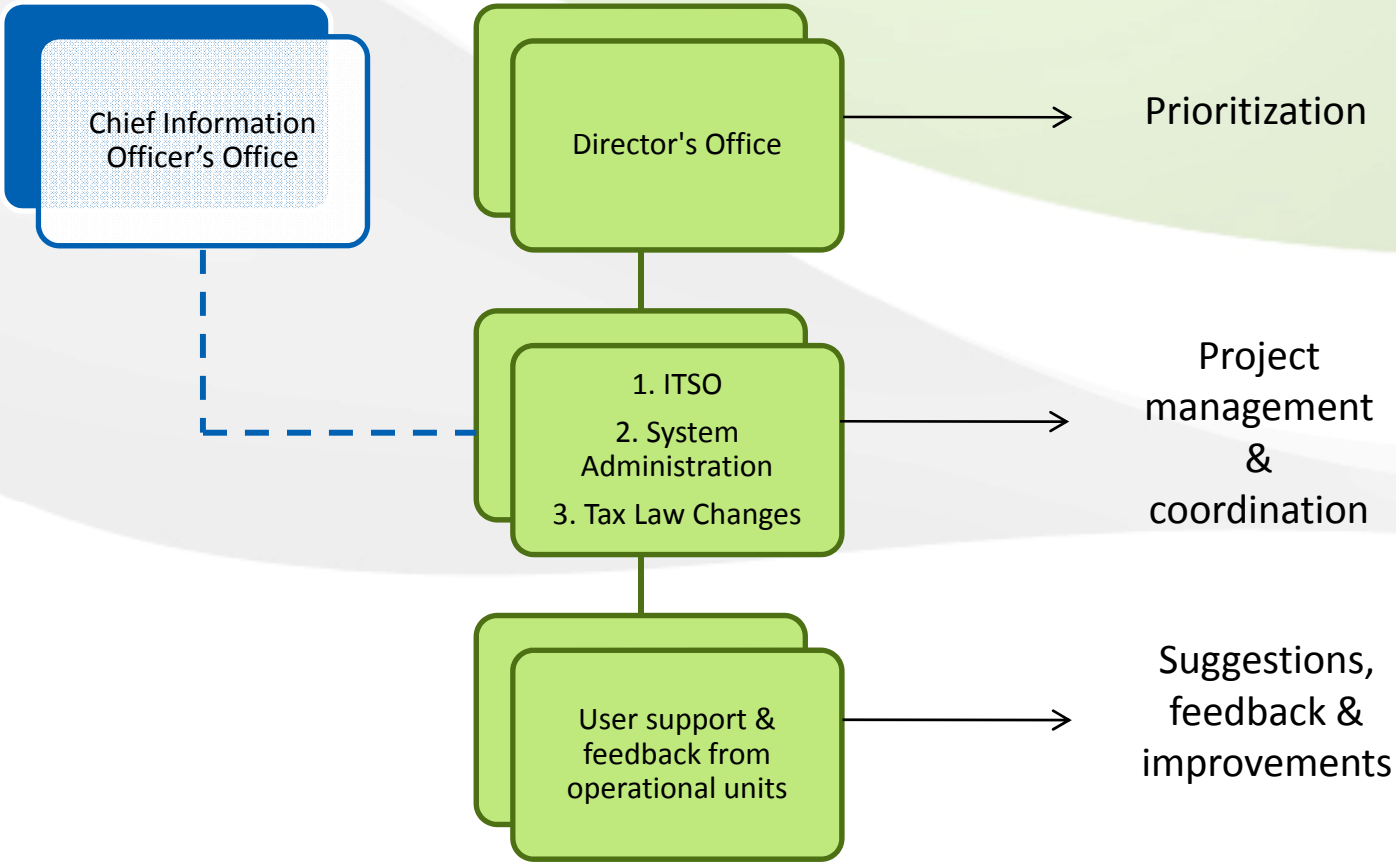
- Collections
  - More efficient and effective collections of taxes
  - Increased voluntary compliance
- Audits
  - More accurate audits
  - Expedited completion of audits
- Processing
  - Reduced printing and postage costs
  - More efficient utilization of resources

Return on Investment by Modernizing

- More efficient utilization of IT resources
  - IT Development Savings
  - Error Handling Savings
  - Improved Data Recognition
- Protection against lost revenue due to fraud
- Improved budget forecasting and policy-making

The Way Forward

Future Proposed Management Of IT Processes



Governance & Project Management Best Practices

- **Governance & Oversight**
  - Implement ongoing project reviews
  - Involve the right people in review – Department Director, CIO, IT Director, Other Stakeholders (i.e. System Users)
  - Ensure proper procurement oversight, particularly in the areas of contracts' terms and conditions

- **Rigorous Project Management Approach**
  - Experienced & qualified Project Manager
  - Form integrated project team (business and IT)
  - Provide appropriate project and performance measures
  - Implement a modular approach to approach to delivery

System Development & Implementation Best Practices

- **System Development Lifecycle Management**
  - Ensure alignment to technology standards and architecture
  - Clear requirements definition and management
  - Implement user acceptance testing throughout the development process
- **Ensure requirements can be and are traced during the development and implementation phases**
- **Separate production from quality assurance/test environment**

Thank You