



Dianne E. Ray, CPA
State Auditor

MEMORANDUM

Date: July 2, 2012
To: Members of the Legislative Audit Committee
From:  Dianne E. Ray, CPA, State Auditor
Re: Status Report

Attached is a status report from the Departments of Revenue and Personnel & Administration on the Tax Processing performance audit heard by the Committee in September 2011.



We Set the Standard for Good Government

AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME: Department of Revenue Tax Processing

AUDIT NUMBER: 2157

DEPARTMENT/AGENCY/ENTITY: Departments of Revenue and Personnel & Administration

DATE: May 31, 2012

SUMMARY INFORMATION

Please complete the table below with summary information for all audit recommendations. **For multi-part recommendations, list each part of the recommendation SEPARATELY.** (For example, if Recommendation 1 has three parts, list each part separately in the table.)

Recommendation Number <i>(e.g., 1a, 1b, 2, etc.)</i>	Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Original Implementation Date <i>(as listed in the audit report)</i>	Implementation Status <i>(Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable)</i> <i>Please refer to the attached sheet for definitions of each implementation status option.</i>	Revised Implementation Date <i>(Complete only if agency is revising the original implementation date.)</i>
1a	Agree	July 2012	Implemented	
1b	Agree	July 2012	Partially Implemented	November 2012
1c	Agree	July 2012	Partially Implemented	November 2012
2	Agree	July 2012	Partially Implemented	November 2012
3a	Agree	December 2011	Implemented	
3b	Agree	May 2012	Implemented / No Longer Applicable	

DETAIL OF IMPLEMENTATION STATUS

Recommendation #: 1a

Agency Addressed: Departments of Revenue and Personnel & Administration

Recommendation Text in Audit Report:

The Departments of Revenue and Personnel & Administration should streamline the tax pipeline processes by:

- a. Determining which Department should perform the tax document and payment processing activities, including processing incoming mail, depositing checks received, imaging tax documents and payments, and uploading data extracted from those documents into GenTax and the Revenue Accounting System.

Agency's Response (*i.e., Agree, Partially Agree, or Disagree*): Agree. Implementation date: July 2012.

Agency's Written Response in Audit Report:

The Department of Personnel & Administration will work in collaboration with the Department of Revenue to determine the most cost effective way to proceed with performing tax document and payment processing activities. This will include a comprehensive review and cost analysis for implementation of this processing at either department, including the overall cost to the State. The Department will then work with the Department of Revenue, the Governor's Office of State Planning and Budgeting, and the Joint Budget Committee as appropriate to implement the identified solution for the tax pipeline process.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Implemented

Agency's Current Comments on Implementation Status of Recommendation:

The Department of Personnel & Administration (DPA) and the Department of Revenue (DOR) began to embark on a detailed analysis of tax document and payment processing activities. During this review, both Departments recognized the opportunity to apply Lean methodology, a systematic approach to continuous improvement, applying principles and tools, to identify and eliminate waste to identify an improved tax pipeline process. The resulting Lean Pipeline project was a collaborative effort which included a Core Team of select employees who actually perform and/or oversee the daily work functions, an Advisory Team of unit managers, and Steering Team of executive management. The following vision statement was developed for the Lean Pipeline project to guide the Core Team:

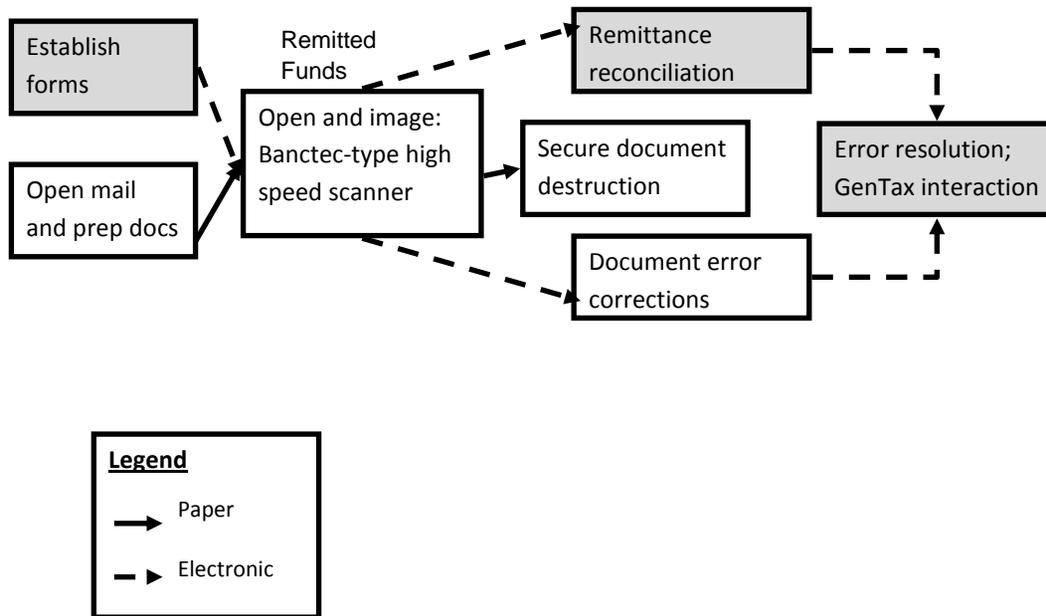
The customers will experience fast, accurate, secure processing of their tax documents through efficient, cost effective, seamless, automated processes that are intuitive.

Delivered by a collaborative, inter-departmental team where the work supports the process.

Driving towards a paperless, customer-oriented tax solution.

The Core Team, comprised of both DPA and DOR employees, worked collaboratively to identify the current processes performed by both agencies related to tax processing and to develop recommendations for operational improvements. The final recommendations for a redesigned and streamlined tax pipeline process were presented to the Steering Team on Monday, June 11, 2012. The following provides a high-level process diagram of the new tax pipeline process:

Recommended Tax Pipeline Process Diagram



These recommendations will require an investment in equipment and will result in significant changes to staffing assignments and levels. A joint DPA and DOR team is currently working on developing a detailed implementation plan, which is preliminarily estimated to be fully implemented by the tax cycle for 2014. Furthermore, the Core Team recommended several incremental, short-term process improvements which are currently being implemented. These changes will result in immediate efficiencies and cost savings.

Recommendation #: 1b

Agency Addressed: Departments of Revenue and Personnel & Administration

Original Recommendation in Audit Report:

The Departments of Revenue and Personnel & Administration should streamline the tax pipeline processes by:

- b. Working with the Governor's Office of State Planning and Budgeting and the Joint Budget Committee to procure funding for the necessary equipment and software to update the tax pipeline processes.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree. Implementation date: July2012.

Agency's Written Response in Audit Report:

The Department of Personnel & Administration will work in collaboration with the Department of Revenue to determine the most cost effective way to proceed with performing tax document and payment processing activities. This will include a comprehensive review and cost analysis for implementation of this processing at either department, including the overall cost to the State. The Department will then work with the Department of Revenue, the Governor's Office of State Planning and Budgeting, and the Joint Budget Committee as appropriate to implement the identified solution for the tax pipeline process.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Partially Implemented

Agency's Comments on Implementation Status of Recommendation:

The Departments of Personnel & Administration and Revenue are working collaboratively on developing an implementation plan, cost estimates and a resulting budgetary change request to address both the equipment needs and staffing changes resulting from the implementation of the recommendations from the Lean process. This will be submitted to the Joint Budget Committee on November 1, 2012.

Recommendation #: 1c

Agency Addressed: Departments of Revenue and Personnel & Administration

Original Recommendation in Audit Report:

The Departments of Revenue and Personnel & Administration should streamline the tax pipeline processes by:

- c. Working with the Governor's Office of State Planning and Budgeting and the Joint Budget Committee to include in the budget process positions to eliminate or reallocate and expenses to reduce at the Department of Revenue or the Division of Central Services that will no longer be needed with the implementation of the new tax pipeline processes.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree. Implementation date: July2012.

Agency's Written Response in Audit Report:

The Department of Personnel & Administration will work in collaboration with the Department of Revenue to determine the most cost effective way to proceed with performing tax document and payment processing activities. This will include a comprehensive review and cost analysis for implementation of this processing at either department, including the overall cost to the State. The Department will then work with the Department of Revenue, the Governor's Office of State Planning and Budgeting, and the Joint Budget Committee as appropriate to implement the identified solution for the tax pipeline process.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Partially Implemented

Agency's Comments on Implementation Status of Recommendation:

As stated above, the Departments of Personnel & Administration and Revenue are working collaboratively on developing an implementation plan, cost estimates and a resulting budgetary change request to address both the equipment needs and staffing changes resulting from the implementation of the recommendations from the Lean process. This will be submitted to the Joint Budget Committee on November 1, 2012.

Recommendation #: 2

Agency Addressed: Department of Revenue

Original Recommendation in Audit Report:

The Department of Revenue should maximize its use of Central Services for outgoing mail processing, and warrant printing, and reallocate or eliminate staff who are currently performing this work.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree. Implementation date: July2012.

Agency's Written Response in Audit Report:

The Department of Personnel & Administration will work with the Department of Revenue to provide a detailed analysis of Department of Revenue Service needs that IDS can provide and determine how the Department of Revenue can save money using the services of DPA. Both departments will then establish a joint team to work on the migration process for those services that are identified. The Department will work with the Department of Revenue, the Governor's Office of State Planning and Budgeting, and the Joint Budget Committee as appropriate to implement the resulting budgetary and personnel changes.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Partially Implemented

Agency's Comments on Implementation Status of Recommendation:

As part of the joint Lean Pipeline project, the Department of Personnel & Administration (DPA) and the Department of Revenue (DOR) also reviewed the auxiliary support services provided by Integrated Document Solutions to the tax pipeline process including mail processing and printing. The Core Team developed recommendations to migrate much of these services to IDS. An implementation plan and associated budgetary change request is being developed for these services by a joint team of DPA and DOR staff.

Recommendation #: 3a

Agency Addressed: Department of Revenue

Original Recommendation in Audit Report:

The Department of Revenue should work to increase e-filing and e-payment rates by:

- a. Working with stakeholders to establish a clearly defined plan for increasing e-filing and e-payment rates. The plan should include specific performance measures and goals for increasing the use of e-filing and e-payment.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree. Implementation date: December 2011.

Agency's Written Response in Audit Report:

The Department acknowledges and appreciates the comments of the state auditor concerning the success we have experienced to date in gaining taxpayer acceptance and utilization of the e-filing options we offer. The Department agrees to continue to work with stakeholders in an effort to further increase the adoption rates surrounding both e-filing and e-payments. The Department has been working with our stakeholders for years to encourage voluntary e-filing and e-payment and has been able to reach 75% compliance in the area of individual income tax filing. We are confident that we will experience similar taxpayer adoption rates in regard to sales tax as taxpayers become more familiar with and more comfortable with filing their returns electronically. The following is a sample of some of things the Department has done to encourage taxpayers to use these services. We have publicized in tax booklets and form instructions, press releases, events, interviews, public service announcements, partnered with all levels of government to make promotional materials available to their customers, and we have partnered with major employers, school districts, local governments, and state payroll to get income tax e-file information out to employees.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

This recommendation has been implemented.

Agency's Comments on Implementation Status of Recommendation:

The Department has established a formal plan with objective milestones in order to measure taxpayer utilization of e-filing options for individual, corporate, and sales and use taxes. The Department has for many years promoted its e-filing services and as a result has realized very substantial utilization rates especially for individual income tax, our most mature e-filing product, where the rates approach 80%.

Recommendation #: 3b

Agency Addressed: Department of Revenue

Original Recommendation in Audit Report:

The Department of Revenue should work to increase e-filing and e-payment rates by:

- b. Working with stakeholders and members of the General Assembly to evaluate possible statutory mandates that require the use of e-filing and e-payment for key types of tax filings, taxpayer groups, and tax preparers; and to implement a small filing fee for tax preparers who want to continue to file paper forms.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree. Implementation date: May 2012.

Agency's Written Response in Audit Report:

The Department of Revenue has been able to develop on-line tools and get individual income tax e-filing to 75% and sales tax e-filing to 25% through outreach with the taxpayers and organizations such as the Colorado CPA Society. We agree that the e-filing and e-payment goals outlined in this audit report would be more attainable if the legislature were to mandate the use of e-filing and e-payments for the majority of the taxpaying public.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Implemented to the degree possible; no longer applicable.

Agency's Comments on Implementation Status of Recommendation:

The Department worked with the Audit Committee in an effort to pursue e-filing mandates; however the Committee voted to not pursue e-filing mandates. The Department will not pursue e-filing mandates at this time. We believe that if we build e-filing systems that are efficient, effective and elegant that the public will voluntarily choose to utilize those systems without the need for a mandate. This is a private sector supply and demand concept that we believe is appropriate in this situation.