

**DEPARTMENT OF TAXATION'S REPORT TO THE 2007 LEGISLATURE
REGARDING THE STATUS OF THE INTEGRATED TAX INFORMATION
MANAGEMENT SYSTEM (ITIMS), AS REQUIRED BY ACT 273, SESSION
LAWS OF HAWAII 1996 AND ACT 155, SESSION LAWS OF HAWAII 1999**

January 2007

EXECUTIVE SUMMARY

AUTHORITY

Act 273, Session Laws of Hawaii 1996 (Act 273), authorized the Department of Taxation (DOTAX) to enter into performance-based contracts for a Systems Replacement Project. Act 155, Session Laws of Hawaii 1999 (Act 155), established the integrated tax information management systems special fund.

HISTORY

In 1999, the DOTAX commenced a 5-year project to replace its aging computer systems for income and business taxes and to re-engineer the organization. The project was named ITIMS for Integrated Tax Information Management System.

DOTAX engaged CGI (formerly American Management Systems or AMS) to assist with this 5-year computer-integrated project.

ACCOMPLISHMENTS

- Generated \$252 million in additional revenue over the 5-year period (that would not have been collected without ITIMS)
 - Cost to DOTAX for ITIMS project over the 5-year period = \$53 million
- Other benefits from ITIMS project over and beyond direct financial benefits include:
 - "One-stop" taxpayer support
 - Integrated tax system
 - Faster refunds
 - Better correspondence
 - 24/7 automated telephone support
 - Ability to implement legislative changes more quickly
 - Accurate and time access to management information
 - Automated billings
 - Automated collection case assignment and prioritization
 - Audit Data Warehouse
 - Audit Selection Tools
 - Imaging System
 - Integrated Cashiering

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BACKGROUND

Act 273, Session Laws of Hawaii 1996 (Act 273), authorized the Department of Taxation (DOTAX) to enter into performance-based contracts for a Systems Replacement Project. Act 273 requires, among other things, a report from the Department, which provides detailed information on the cost and benefits of implementing the Systems Replacement Project; the amount of increased tax, interest, and penalties collected; and the amount paid to the vendor.

Act 155, Session Laws of Hawaii 1999 (Act 155), established the integrated tax information management systems special fund and requires a report from the Department which provides an accounting of the receipts and expenditures from this fund.

HISTORY OF AND REASON FOR REORGANIZATION:

In 1999, the DOTAX commenced a 5-year project to replace its aging computer systems for income and business taxes and to re-engineer the organization to become more efficient and effective in accomplishing its mission statement. DOTAX's mission is "to administer the tax laws of the State of Hawaii in a consistent, uniform, and fair manner." This project was named ITIMS for Integrated Tax Information Management System. The plan to reorganize using today's technology was aimed at optimizing the ability of DOTAX to undertake its multi-faceted functions of tax collections and administration.

In 1999, the administration recognized that the Department's organizational structure did not sufficiently support an efficient and high level of performance. Furthermore, its antiquated computer system did not allow major change to occur. Both organizational change and a new computer system to support those changes were needed, and a decision was reached to approach the ITIMS project as an organizational change that incorporates a computer system implementation.

The IT services provider CGI (formerly American Management Systems or AMS) was subsequently engaged for this five-year computer-integrated project. A top to bottom review was conducted involving staff at all levels, and four core processes were identified: (1) Intake (document/data processing); (2) Customer

Service; (3) Audit; and (4) Collections. This design plan around the core processes was selected to allow DOTAX to better utilize limited resources to carry out its responsibilities and to promote productivity within each core process. In the years since the project was launched, as various phases of technology and organizational changes were implemented, ITIMS shifted some functions, activities, and positions to most effectively and efficiently accomplish required tasks.

To lessen the stress on staff due to far-reaching effects of planned organizational changes, DOTAX management made an important decision to make the changes in a phased approach to balance operational goals and needs, to support the ITIMS development, and to attain planned organizational changes. To be able to make decisions with accurate data, the Organizational Development/Change Management (OD/CM) team for ITIMS conducted extensive staffing requirements analysis with substantial input from executives, branch chiefs and district managers, and staff as appropriate. This analysis was done to determine how people would use the new technology and how work would change with the new technology and organizational structure. The team analyzed organizational needs based on the then current knowledge and anticipated changes in order to develop recommendations about how to best balance operational requirements as they changed due to realignment.

UPDATE OF THE ITIMS PROJECT

Update Summary

The ITIMS program has been a phenomenal success for DOTAX. Through a number of strategic ITIMS projects, DOTAX has modernized most of the infrastructure within the department, and realized a Return on Investment (ROI) of 4.76:1 during the course of the five-year program, generating over \$252 million in additional revenue that would not have been collected without ITIMS (see page 7). In addition, there are numerous benefits from ITIMS over and beyond the direct financial benefits, including:

- **“One-stop” Taxpayer Support.** Through the capabilities provided by the new system, the department was able to reorganize its staff to provide a consolidated customer inquiry section that can respond to nearly all questions without transferring the taxpayer to another agent.
- **Integrated Tax System.** Through the new ITIMS Tax Processing System, staff now has a global view of all of the taxpayer accounts (personal and business), and is able to provide more accurate answers based on the taxpayer's entire situation and circumstances.
- **Faster Refunds.** DOTAX now provides refunds in approximately 2-4 weeks instead of 6-8 weeks.

- **Better Correspondence.** DOTAX was able to redesign its correspondence to make it easier for the taxpayer to understand.
- **24/7 Automated Phone Support.** DOTAX now has automated applications which provide support through a touch-tone telephone, providing answers to the taxpayer at any time (e.g., refund status).
- **Ability to Implement Legislative Changes.** Through the modernized technology the department is able to implement changes mandated by the legislature faster, providing increased flexibility to more quickly respond to legislative tax changes.
- **Accurate and Timely Access to Management Information.** The ITIMS system allows the department to generate management reports much faster than was previously possible, and management now has confidence in the quality of the data provided.
- **Automated Billing.** The ITIMS project automated the data cleanup and billing processes, allowing taxpayers to get their bills faster, and freeing staff to perform more collection activities.
- **Automated Collection Case Assignment and Prioritization.** The ITIMS Collection System (ICS) automated the assignment of the highest priority cases to collectors.
- **Automated Internal Offsets.** The ITIMS system identified taxpayer credits within the system that could be used to offset the taxpayer's unpaid taxes, minimizing resource time and maximizing debt collection.
- **Audit Data Warehouse.** The ITIMS program included a data warehouse of State and Federal data that could be used to identify non-filers and under-reporters.
- **Audit Selection Tools.** The ITIMS program included tools to help assist with the selection process for audit cases.
- **Imaging System.** The ITIMS Imaging System (IIS) provides for efficient intake of high volume, paper-based business and income tax returns and forms. IIS streamlines the data entry process from paper forms into ITIMS through automated character recognition, and provides DOTAX staff with on demand access to on-line images of tax returns to greatly improve customer service.
- **Integrated Cashiering.** The ITIMS integrated cashiering module provides monetary control staff a facility for entering payments for taxes, licenses, bill payments and fees, including a process for daily balancing and reconciliation of cash registers and data upload into ITIMS.

TIMELINE

The proposed project plan was based on a five-year schedule. The short-term Early Wins initiatives were planned for and implemented in years one and two, 2000 and 2001. The ITIMS blueprint planning effort was also initiated in year

one, with replacement of the Comprehensive Net Income Tax (CNIT) computer system targeted in year three, 2002, followed by the replacement of the General Excise Withholding/Transient Accommodations (GEW/TA) computer system in year five, 2004.

During the second year, 2001, the major efforts focused on four areas: ITIMS, Early Wins Program, Electronic Filing, commencement of the CNIT computer system replacement, and the commencement of the organizational development/change component.

- The ITIMS Early Wins Program generated benefits by producing more effective collection notices and encouraging timely tax filing. During 2001, a full function collection system built from pre-existing CGI software product was implemented. The amount of benefits generated from inception through the end of benefits tracking in GEW/TA, September 30, 2004, was \$252 million (see page 7). The benefits generated from the project far exceed the cost (\$53 million)(see page 8) of the entire project, including general excise tax and interest.
- The Department's electronic filing initiatives provided comprehensive self-service capabilities for Hawaii's citizens and businesses through the Internal Revenue Service's Joint Electronic Filing (JELF) and the State of Hawaii's Internet portal (eHawaiiGov). By the end of October 2001, the Department received 23,000 electronically filed returns through the JELF program. Also by the end of the same period, the Department had a variety of tax forms on the Internet portal including the periodic returns for general excise, transient accommodations, and withholding taxes.
- The CNIT computer system replacement portion of the project commenced.
- The organizational development portion, which addresses the organizational changes and the steps to implement them, began.

In the third year, 2002, the CNIT computer system replacement portion of the project was completed and implemented on schedule. Additionally, the focus was on enhancing the electronic filing delivery channels, commencing a project to implement a remittance processing system (including the modification of forms) and completing the first phase of the organizational change. In addition, the design and development phases of GEW/TA system replacement began.

- The CNIT computer system replacement went through many steps during 2002, including completion of system development, system testing, training of employees, and user acceptance testing. The three years of effort culminated with the implementation of the CNIT computer replacement system on November 6, 2002. After implementation the

system was in a "controlled production" phase in which production activities are monitored to ensure that system operations meet expectations. It was also a period that allowed the Department to adapt to the new application. This phase ended in April 2003.

- The electronic filing systems were enhanced in three ways:
 - More forms were added to the JELF processing channel and there was additional publicity regarding JELF. Eighty-one thousand (81,000) returns were processed through JELF.
 - The third set of forms, including the individual short form return (N-13) and the annual returns for the general excise tax and transient accommodations tax were placed on the state's internet portal.
 - Work commenced on a high volume Internet filing channel to address service provider needs (accounting services, payroll services, property management companies and trust companies) with a high volume delivery channel at minimal cost.

This project was completed in 2002.

- The remittance processing system (RPS) was undertaken to reduce the time delay between receipt and processing of payments and the recordation of the payment into the legacy applications (CNIT system replacement and GEW system). This project utilized automated equipment that captured or scanned information from a payment voucher and uploads this information nightly to the legacy applications. Forms modifications were also completed to match the new process, which was implemented in January 2003.
- The first phase of the organizational development portion of the project was completed in September 2002 with the approval of the reorganization plan by the Department of Budget and Finance and the Department of Human Resources Development. The main thrust of this reorganization was to establish the support areas of the department for the new automated systems and affected primarily staff offices. The reorganization utilized vacant positions to achieve the required changes. This reorganization affected approximately 18 positions.

In the fourth year, 2003, the Department processed approximately 114,000 returns through JELF (an increase from 81,000 in 2002).

- In August 2003, a new Call Attendant telephone system was implemented. Certain recorded information was made available, even after hours, to provide faster responses through automation. Taxpayers with less routine questions and problems were given a better chance of getting through to our employees because routine calls could be answered using the

automated system.

- In January 2004, an Interactive Voice Response (IVR) system, which is a more sophisticated telephone answering system, built upon the existing Call Attendant was implemented. In addition to general information, the IVR provides callers automated tax refund information 24 hours a day, 7 days a week.
- Direct Deposits - Taxpayers were able to have their State tax refund for their 2003 Form N-11 resident individual income tax return deposited directly into the bank instead of waiting for a paper check.
- Work continued on the design and development phases of the GEW/TA system replacement for October 2004 scheduled implementation.

In the fifth year, 2004, the GEW computer system replacement portion of the project was implemented on schedule, providing users with a fully integrated system for both income and business tax processing. Additionally, the focus was on the Phase III organizational change for the centralization of account management and file maintenance on Oahu in the Documents Processing Branch.

- The GEW computer system replacement went through many steps during 2004, including completion of system development, system testing, training of employees, and user acceptance testing. The three years of effort culminated with the implementation of the GEW replacement system on October 6, 2004. After implementation the system was in a "controlled production" phase in which production activities were monitored to ensure that system operations meet expectations. It was also a period that allowed the Department to adapt to the new application.
- In September 2004, the Department implemented the Phase III organizational change, which moved Account Management responsibility from the Compliance Division into the Tax Services and Processing Division, and centralized this function and File Maintenance on Oahu. This change allowed for more efficient processing of error-flagged tax returns, and allowed the Compliance Division to focus on its core competency of performing audits. The Phase III organization change also created a separate section for tax license processing.
- In 2004, the Department processed approximately 137,000 returns through JELF (an increase from 114,000 in 2003).

In the sixth and final year, 2005, of the ITIMS special fund the controlled production ramp-up of system functionality for the GEW system replacement portion of the project was completed on schedule on February 28, 2005.

Critical incidents, needed enhancements, and documentation of the User Guide and Operations Guide were completed in June 2005. All warranty support on the GEW system replacement portion of the project was completed by CGI through December 2005.

In 2006, the ITIMS Imaging System (IIS) was released into production operations with selected Business tax forms being processed in February 2006 and selected Income tax forms being added in June 2006. Additionally, several enhancements to ITIMS were also added in 2006 including Integrated Cashiering, Care-of Addressing, and Automated Write-offs.

ACCOUNTING FOR THE RECEIPTS AND EXPENDITURES FROM THE ITIMS SPECIAL FUND, AS REQUIRED BY ACT 155, SLH 1999

The Contract for the ITIMS was signed on August 12, 1999. Work on the ITIMS project commenced on September 7, 1999. In accordance with the terms of Act 273, SLH 1996, and the contract, benefits from the system continue to accrue from increased revenue attributable to ITIMS.

- For fiscal year 1999-2000, benefits from the ITIMS system amounted to \$8,360,318.74.
- For fiscal year 2000-2001, benefits amounted to \$34,755,689.10.
- For fiscal year 2001-2002, benefits amounted to \$43,730,660.20.
- For fiscal year 2002-2003, benefits amounted to \$74,930,981.39.
- For fiscal year 2003-2004, benefits amounted to \$66,690,181.75.
- For fiscal year 2004-2005, benefits amounted to \$23,605,172.12. This amount reflects benefits generated up to the end of the benefits tracking period, September 30, 2004.

Cumulative to date benefits for the ITIMS project total \$252,073,003.31.

ITIMS Benefits by Fiscal Year

FY	Benefits	Period
1999-00	\$8,360,318.74	March 2000 to June 2000
2000-01	\$34,755,689.10	July 2000 to June 2001
2001-02	\$43,730,660.20	July 2001 to June 2002
2002-03	\$74,930,981.39	July 2002 to June 2003
2003-04	\$66,690,181.75	July 2003 to June 2004
2004-05	\$23,605,172.12	July 2004 to September 30, 2004
Total	\$252,073,003.31	

- For fiscal year 1999-2000, expenditures from the ITIMS special fund

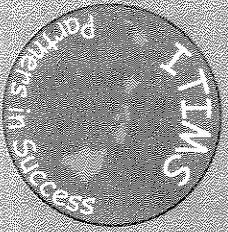
amounted to \$7,288,917.54.

- For fiscal year 2000-2001, expenditures amounted to \$16,201,056.84.
- For fiscal year 2001-2002, expenditures amounted to \$9,003,575.21.
For fiscal year 2002-2003, expenditures amounted to \$10,750,975.19.
- For fiscal year 2003-2004, expenditures amounted to \$8,439,542.00.
- For fiscal year 2004-2005, expenditures amounted to \$1,345,790.97.

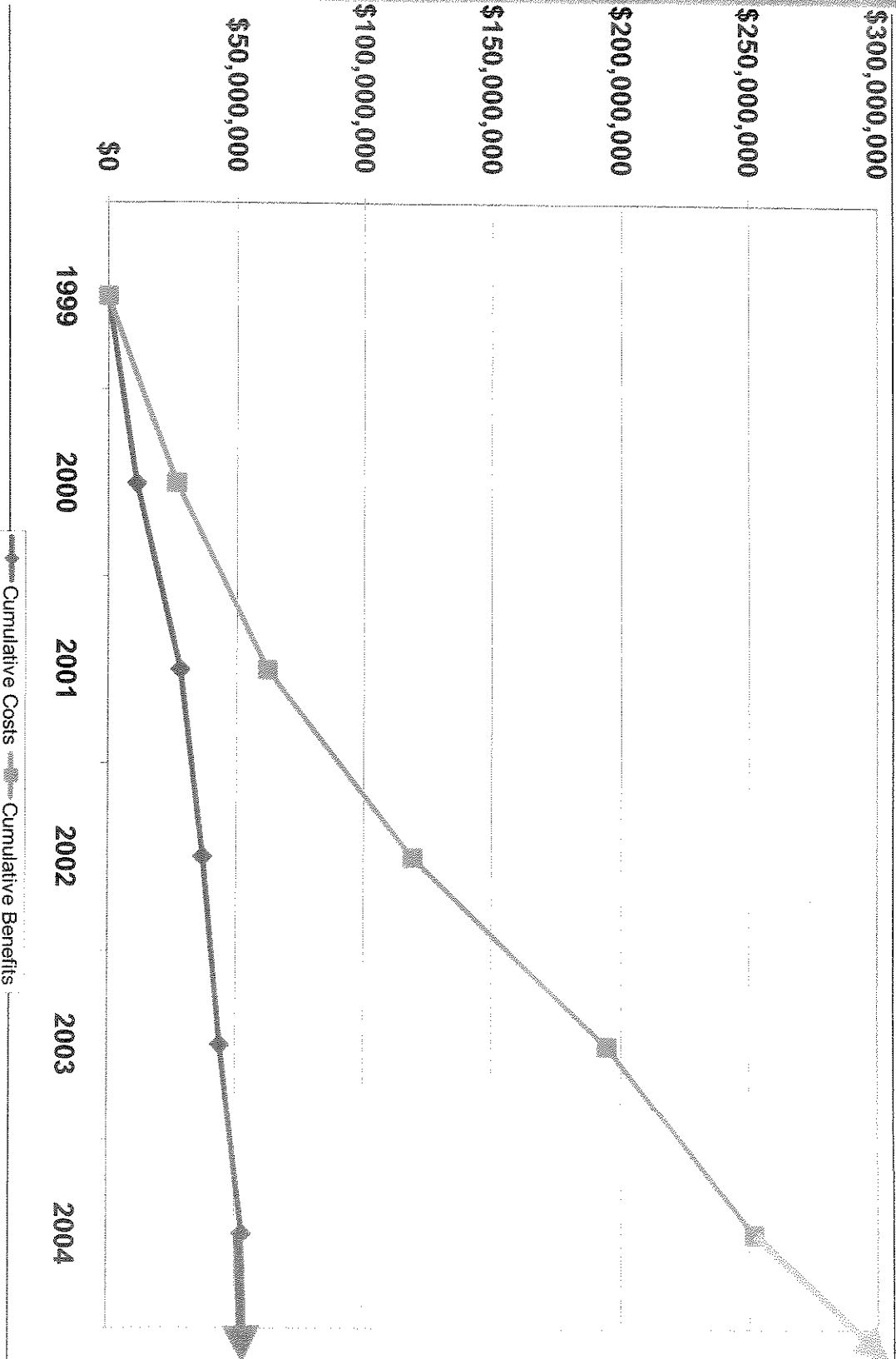
Cumulative to date expenditures for the ITIMS project total \$53,029,857.75.

ITIMS Expenditures by Fiscal Year		
FY	Expenditures	Period
1999-00	\$7,288,917.54	August 1999 to June 2000
2000-01	\$16,201,056.84	July 2000 to June 2001
2001-02	\$9,003,575.21	July 2001 to June 2002
2002-03	\$10,750,975.19	July 2002 to June 2003
2003-04	\$8,439,542.00	July 2003 to June 2004
2004-05	\$1,345,790.97	July 2004 to June 2005
Total	\$53,029,857.75	

DOTAX



ITIMS Provided a Significant Return on Investment to Hawaii



September 21, 2006