

**DEPARTMENT OF TAXATION'S REPORT TO THE 2005 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 2005

**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.

American Management Systems (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. Over the past five years, 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**

### **TIMELINE**

The proposed project plan is 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) system targeted in year three, 2002, followed by the replacement of the General Excise Withholding/Transient Accommodations (GEW/TA) 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 system replacement, and the commencement of the organizational development 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 AMS software product was implemented. The amount of benefits generated from inception through September 30, 2004 was \$252 million. The benefits generated from the project now exceed the cost (\$53 million) 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 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 system replacement portion of the project was 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 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 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. First, 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. Secondly, 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. Lastly, 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 utilizes automated equipment that captures or scans 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 is to establish the support areas of the department for the new automated systems and affects primarily staff offices. The reorganization utilizes 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 now have a better chance of getting through to our employees.
- In October 2003, the Department implemented "one-stop service" which is an effort to consolidate resolution of up to 80% of taxpayer inquiries at the "first point of contact" rather than having to refer taxpayers to different departments.
- 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 refund information 24 hours a day, 7 days a week.
- Direct Deposits - Taxpayers are 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 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 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 has been in a "controlled production" phase in which production activities are monitored to ensure that system operations meet expectations. It was also a period, which allowed the Department to adapt to the new application. This phase is in progress in December 2004, and all critical business functions for processing both income and business tax

forms and payments, issuing refunds, generating billing and adjustment notices are in full and stable operation.

- 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 allows for more efficient processing of error-flagged tax returns, and allows 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).

What remains in this phase which is scheduled to be completed in June 2005, is the Controlled Production ramp-up of system functionality, and the documentation for the User Guide and Operations Guide. Critical incidents, needed enhancements, and tax law changes will be addressed by AMS and DOTAX staff members so that ITIMS is able to handle the income tax filing season. In addition, AMS will continue warranty support through December 2005.

#### **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 as of September 30, amounted to \$23,605,172.12.

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

### ITIMS Benefits by Fiscal Year

<b>FY</b>	<b>Benefits</b>	<b>Period</b>
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 2004
<b>Total</b>	<b>\$252,073,003.31</b>	

The benefits include:  
GEW Failure To Pay (FTP)  
GEW Failure To File (FTF)  
CNIT Failure To Pay (FTP)

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, payments continue to be made only from increased revenue attributable to ITIMS.

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 as of December 30 amounted to \$1,285,180.69.

Cumulative to date expenditures for the ITIMS project total \$52,969,247.47.

<b>ITIMS Expenditures by Fiscal Year</b>		
<b>FY</b>	<b>Expenditures</b>	<b>Period</b>
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	\$1,285,180.69	July 2004 to December 2004
<b>Total</b>	<b>\$52,969,247.47</b>	