

Schedule 13

Funding Request for the 2013-14 Budget Cycle

Department: Revenue
 Request Title: Tax Document Processing Pipeline Efficiencies
 Priority Number: R-3

Dept. Approval by: Barbara Brühl 10/22/12
 Date

OSP Approval by: Erin M. Smith 10/26/12
 Date

- ☐ Decision Item FY 2013-14
☒ Base Reduction Item FY 2013-14
☐ Supplemental FY 2012-13
☐ Budget Amendment FY 2013-14

Line Item Information		FY 2012-13		FY 2013-14		FY 2014-15
	Fund	1 Appropriation FY 2012-13	2 Supplemental Request FY 2012-13	3 Base Request FY 2013-14	4 Funding Change Request FY 2013-14	6 Continuation Amount FY 2014-15
Total of All Line Items	Total	12,852,753	-	12,808,219	(1,010,422)	(1,685,137)
	FTE	97.3	-	97.3	(10.7)	(24.3)
	GF	10,353,007	-	10,192,843	(1,010,422)	(1,685,137)
	GFE	-	-	-	-	-
	CF	2,426,581	-	2,570,276	-	-
	RF	73,165	-	45,100	-	-
	FF	-	-	-	-	-
(1) Executive Director's Office, Leased Space	Total	3,517,094	-	3,517,094	(20,000)	(20,000)
	FTE	-	-	-	-	-
	GF	1,794,734	-	1,794,734	(20,000)	(20,000)
	GFE	-	-	-	-	-
	CF	1,722,360	-	1,722,360	-	-
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(2) Central Department Operations, Personal Services	Total	5,303,546	-	5,300,755	(574,116)	(1,085,544)
	FTE	97.3	-	97.3	(10.7)	(24.3)
	GF	4,713,801	-	4,595,380	(574,116)	(1,085,544)
	GFE	-	-	-	-	-
	CF	516,580	-	660,275	-	-
	RF	73,165	-	45,100	-	-
	FF	-	-	-	-	-
(2) Central Department Operations, Seasonal Tax Processing	Total	439,288	-	397,545	(101,154)	(101,154)
	FTE	-	-	-	-	-
	GF	439,288	-	397,545	(101,154)	(101,154)
	GFE	-	-	-	-	-
	CF	-	-	-	-	-
	RF	-	-	-	-	-
	FF	-	-	-	-	-

Line Item Information		FY 2012-13		FY 2013-14		FY 2014-15
		1	2	3	4	6
	Fund	Appropriation FY 2012-13	Supplemental Request FY 2012-13	Base Request FY 2013-14	Funding Change Request FY 2013-14	Continuation Amount FY 2014-15
(2) Central Department Operations, Operating Expenses	Total	1,283,311	-	1,283,311	(57,446)	(86,279)
	FTE	-	-	-	-	-
	GF	1,135,175	-	1,135,175	(57,446)	(86,279)
	GFE	-	-	-	-	-
	CF	148,136	-	148,136	-	-
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(2) Central Department Operations, Document Management	Total	2,309,514	-	2,309,514	(257,706)	(392,160)
	FTE	-	-	-	-	-
	GF	2,270,009	-	2,270,009	(257,706)	(392,160)
	GFE	-	-	-	-	-
	CF	39,505	-	39,505	-	-
	RF	-	-	-	-	-
	FF	-	-	-	-	-
Letternote Text Revision Required? Yes: <input type="checkbox"/> No: <input checked="" type="checkbox"/> If yes, describe the Letternote Text Revision:						
Cash or Federal Fund Name and COFRS Fund Number: Reappropriated Funds Source, by Department and Line Item Name: Approval by OIT? Yes: <input type="checkbox"/> No: <input type="checkbox"/> Not Required: <input checked="" type="checkbox"/> Schedule 13s from Affected Departments: Department of Personnel and Administration Other Information:						



DEPARTMENT OF REVENUE

FY 2013-14 Funding Request
November 1, 2012

John W. Hickenlooper
Governor

Barbara J. Brohl
Executive Director

Barbara J. Brohl
Signature

10/31/12
Date

Department Priority: R-3

Request Title: Tax Document Processing Pipeline Efficiencies

Summary of Incremental Funding Change for FY 2013-14	Total Funds	General Fund	FTE
Total Request	(\$1,010,422)	(\$1,010,422)	(10.7)
Personal Services	(\$574,116)	(\$574,116)	(10.7)
Seasonal Tax Processing	(\$101,154)	(\$101,154)	0.0
Leased Space	(\$20,000)	(\$20,000)	0.0
Operating Expenses	(\$57,446)	(\$57,446)	0.0
Document Management	(\$257,706)	(\$257,706)	0.0

Request Summary:

The Department of Revenue requests a reduction of \$1,010,422 General Fund and 10.7 FTE to reflect efficiencies in the tax document processing pipeline in FY 2013-14. This request annualizes to a reduction of \$1,685,137 General Fund and 24.3 FTE in FY 2014-15.

Problem or Opportunity:

In September, 2011, the State Auditor's Office conducted a tax processing (pipeline) performance audit of the Department of Revenue. The pipeline consists of many activities and processes performed by staff in both the Department of Revenue and the Department of Personnel and Administration. The audit described a bifurcated document management system that relies on outdated manual processes, outdated infrastructure, a lack of strong coordination between the departments, and a failure to capitalize on either department's expertise.

Brief Background:

The current tax document process involves shipping open tax returns between Denver and Pueblo twice for data entry and imaging work, and it can take up to two weeks for documents to be imaged for archival purposes and destroyed. Manual work processes are employed at most stages and for most taxes, from opening and prepping documents to entering data from tax forms. The length of time it takes to process the returns create a number of issues for the Department of Revenue such as the failure to optimize the timely processing of refund approvals, the potential to generate unnecessary bills sent to taxpayers, and the inability to respond quickly and accurately to taxpayer inquiries. All of these issues can create additional workload for Department of Revenue staff and negatively impact customer service. Moreover, it is neither cost efficient nor effective for both departments to carry out their respective duties independently of each other.

The audit's first recommendation directed both departments to work together to address numerous inefficiencies in tax document

processing. As part of the Governor's directive to make government more efficient, effective, and elegant, the departments agreed to utilize the Lean process to review all pipeline activities performed by staff in both organizations. The purpose of Lean is to eliminate processes that do not add value to the customer, in this case the state's taxpayers.

The departments identified numerous opportunities for workflow automation by leveraging new equipment and technology. It also found that the workflow could be streamlined as about 85.0 percent of pipeline activities were found to not add value to the process.

The current pipeline workflow processes in the Department of Revenue require 37.0 FTE and approximately \$2.4 million, not including approximately \$1.0 million and 9.9 FTE for administration of Central Department Operations and \$2.3 million in payments to the Department of Personnel and Administration for document management costs. The following includes a list of work units and the FTE assigned and tasks performed by each work unit:

- Incoming Mail Room: 8.0 FTE – Sort, extract, and prep tax documents;
- Income Tax Clearing: 5.0 FTE – Preliminary review of all income and severance tax documents, sort by tax type, year, refunds, or payments prior to remittance, assign document control and batch numbers;
- Business Tax Clearing: 6.0 FTE – Preliminary review of tax documents aside from income tax, sort by tax type, year, refunds or payments prior to remittance, assign document control and batch numbers;
- Remittance Processing: 10.0 FTE – Balance and deposit all payments received for income, sales and use, severance, withholding, excise, and other taxes and fees. Assign document control numbers and provide payment data and document images to the tax system.
- Data Entry: 3.0 FTE – Prepare, package, log, and reconcile documents transported between Denver and Pueblo; and
- Tax Files: 5.0 FTE – Tax document storage and retrieval and audit and research work.

Proposed Solution:

As a result of the Lean process both departments concluded that document management functions, which are handled by the incoming mail room, income and business tax clearing, and data entry sections, should be automated and transferred to the Department of Personnel and Administration. This agency will open and digitally scan all tax returns and checks; however, checks and payments received by the Department of Revenue will be digitally scanned at Department of Revenue offices for security purposes. Images of documents and checks will be electronically transferred to the Department of Revenue in order to route error and exception documents for research and correction, balance the remittance, reconcile and transmit check images and an electronic deposit to the bank, and perform edits of returns and error resolution prior to posting to individual accounts. As a result of this change to document management, the Department of Revenue will not need the current level of staffing after new equipment and software is purchased and installed.

Alternatives:

The departments utilized Lean tools and techniques to streamline current workflow processes and to leverage technologies to automate manual processes in the tax document processing pipeline.

Anticipated Outcomes:

Changes to the tax document pipeline process would achieve the following:

1. Ensures the security of checks and financial information of taxpayers;
2. Retains the relationship between the source document and the remittance associated with that document;
3. Identifies infrastructure and technology capable of achieving same day processing for all remittance and eliminates non-value added work;
4. Leverages new technological capabilities across all state agencies;
5. Accommodates volatile seasonal volumes and the projected long-term decrease in paper tax returns;
6. Manages the risks associated with hardware and software costs;

7. Brings stability and clarity to rate setting and cost control; and
8. Automates numerous manual processes, which results in significant savings to the state.

Assumptions for Calculations:

The Department of Revenue has six work groups that are affected by the proposed changes to the pipeline. The Department of Personnel and Administration will install the equipment and software requested through its capital construction request and be ready to process tax documents by January 1, 2014. Therefore, savings realized in FY 2013-14 will be for six months, with the exception of the Department of Revenue personal services savings, which will be for five months to account for the provisions of Section 24-50-104 (8) (a) (I), C.R.S. (pay date shift).

Appendix A shows each work unit and the FTE and budget to support each work unit under the current pipeline workflow processes and under the proposed Lean processes for FY 2013-14 and FY 2014-15. A discussion of changes to each work unit is discussed below and reflects annualized savings in FY 2014-15.

Incoming Mail: The majority of the incoming mail processing functions will transfer to the Department of Personnel and Administration resulting in a reduction of 6.2 FTE and \$442,205 General Fund. However, the Department of Revenue will continue to handle mail associated with the Division of Motor Vehicles and normal business mail for the Department. It is estimated that approximately 660,000 pieces of mail will still be processed by the Department per year, resulting in the need to retain 1.8 FTE and \$91,353 General Fund.

Tax Clearing: For income and business tax clearing and data entry, the Department of Revenue proposes eliminating these activities by FY 2014-15 as some work will be automated and other work will be transferred to the Department of Personnel and Administration, resulting in the elimination of 14.0 FTE and \$1,050,214 General Fund.

Remittance Processing: The remittance processing section will not be impacted by this proposal. As such, its staff of 10.0 FTE will remain unchanged.

Tax Files: Tax files will reduce 3.1 FTE and \$134,792 General Fund associated with document preparation for archival imaging and secure document destruction. However, the Department will continue to retrieve archived documents for taxpayers and outside entities, perform image control, verification, and independent audits of documents prior to destruction, correct and enter information needed to link the image and data in the Colorado Information Tax Architecture (CITA) program, and securely manage and destroy documents and checks received at the Department of Revenue. The Department will retain 1.9 FTE and \$106,073 to continue to perform this activity.

Administration: Due to a 52.0 percent reduction in staff in the legacy pipeline environment, the Department will not need the current number of managers. The current pipeline workflow process requires 5.0 FTE managers and the Department will reduce this by 1.0 FTE manager, saving \$85,293 General Fund.

Document Management: These costs will decrease \$392,160 General Fund to reflect changes to the Department's imaging and data entry volumes (refer to Appendix B for FY 2014-15 billing projections). The Department of Personnel and Administration will perform a higher volume of imaging for the Department of Revenue than in the past. Currently, DPA images approximately 6.2 million pages of tax documents for the Department of Revenue, and under this proposal, volume will increase to between 18.0 and 19.6 million pages. The large increase of imaged documents results from the Department of Personnel and Administration scanning all tax documents, including checks, envelopes, withholding forms, and coupon-sized sales tax returns. In the past, the Department of Revenue imaged coupon-sized returns and checks, while most envelopes, correspondence, and W-2

withholding forms were not imaged. At the same time, the volume of data entry keyed will decrease by approximately 70.0 percent from 369.0 million keystrokes.

The Department of Revenue notes that over time, fewer documents will be received on paper, which will result in fewer keystrokes and images created. This reduction will be driven by a greater adoption of e-filing and more automated options for taxpayers to contact the Department, such as Revenue Online. However, the Department will capture more information from paper returns, which will offset some of the reduction mentioned above, and will result in more robust and complete data collection. This will provide the Department better information for auditing and analysis.

Consequences if not Funded:

The state will be unable to realize the General Fund savings associated with the changes to the tax pipeline previously described.

Impact to Other State Government Agency:

The Department of Personnel and Administration has submitted a capital construction request to purchase new equipment and software capable of scanning and capturing data from tax forms and checks for the Department of Revenue and from other forms for most other state agencies. It has

also submitted a funding request to realize savings in data entry and document imaging.

Cash Fund Projections:

Not applicable.

Relation to Performance Measures:

This request relates to two goals of the Department of Revenue: Customer Service--be respectful to customers by providing processes that are clear, simple, timely, and convenient; and Fiduciary Responsibility--provide responsible financial, resource, and project management that builds a sustainable foundation utilizing a high standard of care.

Supplemental, 1331 Supplemental, or Budget Amendment Criteria:

Not applicable.

Current Statutory Authority or Needed Statutory Change:

Broad authority for the collection, administration, and enforcement of Colorado's tax code exists in Section 24-35-101, C.R.S., and specific authority for the remittance of taxes collected exists in Section 24-35-106, C.R.S. The Department of Personnel and Administration has authority for the provision of centralized services in Section 24-30-1101, C.R.S.

Appendix A
FY 2013-14 Budget and FTE Changes by Work Unit

Current Budget	Incoming Mail	Income Tax Clearing	Business Tax Clearing	Remittance Processing	Data Entry	Tax Files	Administration	Total
Personal Services	\$424,141	\$185,489	\$263,312	\$385,433	\$109,803	\$199,852	\$1,045,843	\$2,613,873
FTE	8.0	5.0	6.0	10.0	3.0	5.0	9.9	46.9
Seasonal Tax	\$40,908	\$60,246	\$0	\$0	\$0	\$0	\$0	\$101,154
Operating Budget	\$61,008	\$8,966	\$11,547	\$156,661	\$6,192	\$41,013	\$27,367	\$312,753
Leased Space	\$7,500	\$12,500	\$0	\$0	\$0	\$0	\$0	\$20,000
Document Management	\$0	\$0	\$0	\$0	\$2,309,514	\$0	\$0	\$2,309,514
Total	\$533,558	\$267,201	\$274,859	\$542,094	\$2,425,509	\$240,865	\$1,073,210	\$5,357,294

Lean Budget	Incoming Mail	Income Tax Clearing	Business Tax Clearing	Remittance Processing	Data Entry	Tax Files	Administration	Total
Personal Services	\$216,232	\$108,202	\$153,599	\$385,433	\$64,052	\$150,739	\$961,500	\$2,039,757
FTE	5.4	2.9	3.5	10.0	1.8	3.7	8.9	36.2
Seasonal Tax	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Operating Budget	\$31,374	\$4,483	\$5,773	\$156,661	\$3,096	\$27,504	\$26,417	\$255,308
Leased Space	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Document Management	\$0	\$0	\$0	\$0	\$2,051,808	\$0	\$0	\$2,051,808
Total	\$247,606	\$112,685	\$159,372	\$542,094	\$2,118,956	\$178,243	\$987,917	\$4,346,873

Budget Reduction	(\$285,952)	(\$154,516)	(\$115,487)	\$0	(\$306,553)	(\$62,622)	(\$85,293)	(\$1,010,422)
FTE Reduction	(2.6)	(2.1)	(2.5)	0.0	(1.3)	(1.3)	(1.0)	(10.7)
Personal Services	(207,909)	(77,287)	(109,713)	0	(45,751)	(49,113)	(84,343)	(574,116)
Seasonal Tax Processing	(40,908)	(60,246)	0	0	0	0	0	(101,154)
Operating Expenses	(29,634)	(4,483)	(5,774)	0	(3,096)	(13,509)	(950)	(57,446)
Leased Space	(7,500)	(12,500)	0	0	0	0	0	(20,000)
Document Management	0	0	0	0	(257,706)	0	0	(257,706)

FY 2014-15 Budget and FTE Changes by Work Unit

Current Budget	Incoming Mail	Income Tax Clearing	Business Tax Clearing	Remittance Processing	Data Entry	Tax Files	Administration	Total
Personal Services	\$424,141	\$185,489	\$263,312	\$385,433	\$109,803	\$199,852	\$1,045,843	\$2,613,873
FTE	8.0	5.0	6.0	10.0	3.0	5.0	9.9	46.9
Seasonal Tax	\$40,908	\$60,246	\$0	\$0	\$0	\$0	\$0	\$101,154
Operating Budget	\$61,008	\$8,966	\$11,547	\$156,661	\$6,192	\$41,013	\$27,367	\$285,387
Leased Space	\$7,500	\$12,500	\$0	\$0	\$0	\$0	\$0	\$20,000
Document Management	\$0	\$0	\$0	\$0	\$2,309,514	\$0	\$0	\$2,309,514
Total	\$533,558	\$267,201	\$274,859	\$542,094	\$2,425,509	\$240,865	\$1,073,210	\$5,329,928

Lean Budget	Incoming Mail	Income Tax Clearing	Business Tax Clearing	Remittance Processing	Data Entry	Tax Files	Administration	Total
Personal Services	\$89,453	\$0	\$0	\$385,433	\$0	\$91,943	\$961,500	\$1,528,329
FTE	1.8	0.0	0.0	10.0	0.0	1.9	8.9	22.6
Seasonal Tax	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Operating Budget	\$1,900	\$0	\$0	\$156,661	\$0	\$14,130	\$26,417	\$199,108
Leased Space	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Document Management	\$0	\$0	\$0	\$0	\$1,917,354	\$0	\$0	\$1,917,354
Total	\$91,353	\$0	\$0	\$542,094	\$1,917,354	\$106,073	\$987,917	\$3,644,791

Budget Reduction	(\$442,205)	(\$267,201)	(\$274,859)	\$0	(\$508,155)	(\$134,792)	(\$85,293)	(\$1,685,137)
FTE Reduction	(6.2)	(5.0)	(6.0)	0.0	(3.0)	(3.1)	(1.0)	(24.3)
Personal Services	(334,688)	(185,489)	(263,312)	0	(109,803)	(107,909)	(84,343)	(1,085,544)
Seasonal Tax Processing	(40,908)	(60,246)	0	0	0	0	0	(101,154)
Operating Expenses	(59,108)	(8,966)	(11,547)	0	(6,192)	(26,883)	(950)	(86,279)
Leased Space	(7,500)	(12,500)	0	0	0	0	0	(20,000)
Document Management	0	0	0	0	(392,160)	0	0	(392,160)

Appendix B
Document Management Savings

Pipeline Rates and Billing Projections FY14 and FY15

Estimated Billing to DOR from IDS Pueblo

	Scanning	Data Entry	Projected Total Billing	DOR Budget	Difference
FY14	\$ 1,298,266	\$ 753,542	\$ 2,051,808	\$ 2,309,514	\$ (257,706)
FY15	\$ 1,163,812	\$ 753,542	\$ 1,917,354	\$ 2,309,514	\$ (392,160)

Changes to Rates as Result of Pipeline Changes

	FY13	FY14	% Change from FY13	FY15	% Change from FY13
Data Entry	\$ 4.60	\$ 5.75	25%	\$ 5.75	25%
Scanning					
Income Tax (scan)	\$ 0.033	\$ 0.035	6%	\$ 0.029	-12%
Income Tax (prep)	\$ 0.032	\$ 0.025	-22%	\$ 0.024	-25%
Income Tax Total	\$ 0.065	\$ 0.060	-8%	\$ 0.053	-18%
Business Tax (scan)	\$ 0.038	\$ 0.035	-8%	\$ 0.029	-24%
Business Tax (prep)	\$ 0.037	\$ 0.025	-32%	\$ 0.024	-35%
Business Tax Total	\$ 0.075	\$ 0.060	-20%	\$ 0.053	-29%

Appendix C
Remaining FTE Analysis

Incoming Mail Room	Volume
Motor Vehicle	154,170
Renew by Mail	6,386
Reinstatements	35,052
Desk Mail	14,224
Return Mail	440,770
Return Warrants	<u>9,158</u>
Total	659,760
FTE Processing Standard by hour	250
Hours to Process Mail	2,639
Additional Hours DMV Mail Pre	457
Total Hours	3,096
Productive Hours per FTE	1,690
Required FTE	1.8

Tax Files Image Retrieval Volume	Standard Retrieval per Hour	Hours Needed
Microfilm	8,707	14 622
CDs	3,639	32 114
Server	<u>3,194</u>	37 86
	Total Hours	822
	Productive Hours per Day	6.5
	Less Document Prep	1
	Less Other Duties	1
	Adjusted Productive Hours	4.5
	Productive Hours per FTE	1170
	Required FTE for Retrieval	0.7
	Current Hours for Image Review and Auditin	1952
	Productive Hours per Day	6.5
	Productive Hours per FTE	1690
	Required FTE for Image Review and Auditin	1.2
	Total FTE	1.9