REPORT OF

THE

STATE AUDITOR

DEPARTMENT OF REVENUE
TAX GROUP SERVICES

PERFORMANCE AUDIT
APRIL 2000

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May 17, 2000

Members of the Legislative Audit Committee:

This report contains the results of the performance audit of the services of the Department of Revenue, Tax Group. This audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions and agencies of state government.

This report presents our findings, conclusions and recommendations and the responses of the Department of Revenue and State Treasurer's Office**.**

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OFFICE OF THE STATE AUDITOR **REPORT SUMMARY**

J. DAVID BARBA, CPA
State Auditor

Tax Group Services
Department of Revenue
April 2000

Authority, Purpose and Scope

This performance audit of the Tax Group of the Department of Revenue was conducted under the authority of Section 2-3-102, C.R.S., which authorizes the State Auditor's Office to conduct audits of all departments, institutions and agencies of state government. We conducted this audit according to generally accepted auditing standards. We gathered information in this report through interviews, document review, surveys and analysis of data. Audit work was performed between July 1999 and April 2000. The purpose of this audit was to evaluate Tax Group operations and customer services.

We focused our audit on the Cash and Document Processing and Taxpayer Service sections, and specifically the Taxpayer Assistance Call Center. This report contains findings and 15 recommendations to help the Tax Group improve operations and services provided to its customers. We acknowledge the efforts and assistance extended by the staff of the Department of Revenue, Office of the State Treasurer and the taxpayers who participated in our survey.

The following summary provides highlights of the comments, recommendations, and responses contained in the report.

Cash and Document Processing

The Cash and Document Processing Section (CDP) has the responsibility to receive and open daily mail and process paper documents accurately and quickly. The goal established by the Department is to deposit 85 percent of remittances within 24 hours.

CDP processes tax returns from the time they are picked up at the post office until they are archived on microfilm. Tax returns and remittances are filed at various intervals depending on the size and type of filer. The mail room received an average of 19,320 envelopes with peak volume of 34,871 per day during the 1999 tax season. In addition to checks, each piece of mail can contain multiple documents.

The Section manually processes most of the paper documents and payments it receives and subsequently makes a daily revenue forecast to the State Treasurer's Office. The State Department of Treasury reports that inaccurate forecasting cost $2.9 million in foregone general fund interest earnings in the first 6 months of 1999, and that the Department of Revenue does not have the tools to forecast accurately.

For further information on this report, contact the Office of the State Auditor at (303) 866-2051.

Mandatory Electronic Funds Transfers (EFT) can address some shortcomings of manual processing. At least 39 states have mandatory EFT for all or some taxes and specify minimum tax liability thresholds. However, Colorado statute limits mandatory EFT to Withholding tax filers with an annual tax liability of over $50,000. **We believe that the Department of Revenue and State Treasurer's Office could increase general fund revenue by developing an annual mandatory EFT tax remittance liability threshold. Then, statutory changes necessary to expand mandatory EFT for the state's larger Sales tax filers should be recommended to the General Assembly.**

Department of Revenue Response:

Agree. The Department believes mandatory EFT payment will improve the Department's current cash deposit goals. It will decrease the uncertainty associated with funds availability. The Department will contact the Treasurer's Office and jointly develop legislation by January 2001 in time for the 2001 General Assembly.

It is the Department's wish to provide assistance to the extent possible, and the Department is willing to assist the Treasurer in any way practicable in meeting their goals.

Department of Treasury Response:

Agree. Electronic Funds Transfer (EFT) ensures accurate and timely deposit of funds in the State's operating account. Accordingly, EFT will provide the State's investment officers with better information and allow them to invest higher percentages of the day's total deposit in higher yielding investments without endangering safety or liquidity. The large establishments for which mandatory EFT is recommended should already possess the ability to use EFT. Consequently adopting such a requirement will not impose a material burden upon the reporting companies.

In 1994, the Department approved and the legislature appropriated the funds to build a new income tax processing system incorporating customer oriented goals, including accuracy, speed and convenience. The project became known as the Income Tax Initiative (ITI). The Department reported to the Joint Budget Committee that it had spent about $12.5 million on the project by November of 1999, yet only $1.9 million of the project cost yielded salvageable results. Consequently, ITI customer service goals will not be achieved. The 35-year-old system, deemed inadequate in 1994 when nearly 2 million income tax returns and 1 million refunds were processed, must be used to processes 17.5 percent more returns and 32.5 percent more refunds estimated in Fiscal Year 2000.

We looked for alternatives that could satisfy the customer-oriented goals of ITI with minimal capital costs. Tax administration agencies in other states have taken steps to outsource certain aspects of their operations to third parties. The most aggressive use of outsourcing comes from New York State which has contracted portions of its individual income tax processing to a third-party contractor.

Beginning with the 1995 tax season, the contractor began receiving returns and processing remittances. Capturing data, imaging returns, verifying and entering data are within the scope of the contract. The contractor is responsible for processing the return to the point of delivering machine-readable data to the tax agency. State employees then perform the various higher-level examination and compliance functions and process refunds. The reported benefits to New York State include:

- Savings between $20.4 to $76.6 million over the span of the 10-year contract.
- About 1 million refunds were paid 45 days earlier than in previous years.
- Front-end capital costs were absorbed by the contractor.

We think the Department could initiate a Request for Information (RFI) to identify opportunities for achieving the customer-oriented goals of the Income Tax Initiative while minimizing capital costs by outsourcing portions of the Income tax processing system.

Department of Revenue Response:

Agree. The Department will also pursue strategies via the RFI to pursue the goals of an integrated tax system. An RFT will be completed by June 30, 2001.

Paperless Income Tax Filing

Colorado's Netfile and Telefile income tax filing programs emerged as the only salvageable components of the Income Tax Initiative, and were implemented during the 1999 tax year. Previously, the only paperless-filing option available to Colorado taxpayers was the Federal/State Electronic Filing Program (FSEF), offered through third-party private-sector transmitters. Electronic filing is more convenient for taxpayers, more accurate and costs $0.42 per return to process compared to $1.25 for paper returns.

The benefits of paperless filing grow as taxpayer participation increases. A total of 3.6 percent of state taxpayers filed their income tax using Netfile and Telefile in Fiscal Year 1999. This was 87 percent lower than the 28 percent participation level initially projected by the Department.

In effort to identify a reasonable participation standard for paperless filing and steps for achieving that standard, we reviewed Federal and State paperless filing participation and marketing strategies used to increase participation levels. The Internal Revenue Service (IRS) reported 22.1 percent participation in Fiscal Year 1998 and 26 percent in Fiscal Year 1999. The largest increase came from taxpayers filing from their home computers. Pennsylvania's Netfile and Telefile program participation increased from 9 percent in Fiscal Year 1998 to 17.2 percent in Fiscal Year 1999.

Both IRS and Pennsylvania attribute their increase in taxpayer participation to targeted marketing plans developed with specific strategies and measurable outcomes. The IRS is under congressional mandate to achieve 80 percent paperless filing by Fiscal Year 2007. Pennsylvania works in conjunction with the IRS to market paperless filing benefits. The state's Telefile system led the nation with over 483,000 returns filed by taxpayers in Fiscal Year 1999. The state's Netfile and Telefile systems, put in place in Fiscal Year 1998, nearly doubled to 17.24 percent in Fiscal Year 1999. Pennsylvania's revenue department and IRS representatives hold "Paperless Filing Mall Promotions" across the state. Computers and telephones are available and representatives assist taxpayers with electronic filing at those sites. **We think that during Fiscal Year 2001, the Department could increase state income tax paperless filings to the 22.1 percent achieved by the IRS in 1998 and continue increasing participation thereafter with strategies used by IRS and Pennsylvania including developing a comprehensive goal-oriented marketing plan; partnering with IRS to promote paperless filing methods in Colorado; and working with the Colorado Homepage Fast Track Team to establish guidelines for linking taxpayers to Online private sector preparation services through the DOR Web page.**

Department of Revenue Response:

Agree. The Department will work with the IRS to determine the level of resources and systems needed to increase paperless filings consistent with the IR standards for Fiscal Year 2001. IRS statistics indicate that 95% of Coloradans filing electronic federal returns also filed electronic state returns. According to a survey done by the Federation of Tax Administrators, Colorado is at the average for all states, with 23% of our tax paying population using electronic filing methods.

Taxpayer Assistance Call Center

A primary way the Taxpayer Service Section facilitates contact with citizens is by maintaining a call center staffed with tax examiners who are phone agents trained to address taxpayer inquiries. The Department's response to citizen's complaints about call blockage and excessive wait times, beginning in Fiscal Year 1999, was to upgrade the phone system, including the addition of trunk lines to lessen call blockage (busy signal).

Over the next three years, 23 additional FTE have been requested by the Department to work in the call center and to meet proposed performance objectives. Contingent on receiving that additional staffing, the Department reports that the call center will reduce call blockage to 5 percent with less than a 4 minute wait time in queue by Fiscal Year 2003. Our analysis of call center activity found that nearly half of the calls received at the call center could have been answered by the information provided on the Revenue Web page, through voice mail or Interactive Voice Response (IVR) systems.

The Department uses IVR technology to alleviate call load and allow taxpayers to answer their own questions through a series of telephone prompts. However, the Department's IVR system has been designed to handle only Individual Income tax inquiries. Tax questions other than those relating to Individual Income taxes constituted approximately 60 percent of all calls at the TPS call center in Fiscal Years 1998 and 1999.

The growth of call volume is a certainty while the future availability of funding for added FTE is not. Consequently, we focused on comparatively less costly alternatives the Department should consider before requesting additional FTE for Fiscal Year 2002. **We believe that the Department could reduce call wait times and blockages for minimal cost by implementing a system to inform callers holding in queue of all alternative sources of tax information; making the IVR telephone system the first point of contact for TPS callers and upgrading the IVR to include information on all tax types; establishing baseline performance measures; and developing an accuracy standard which establishes quality-related customer service goals.**

Department of Revenue Response:

Agree. While the Department feels that this recommendation is an effective way to meet growing taxpayer interactive demands, this change in our service delivery will require, in significant part, a more sophisticated telephone switch and IVR system. The Department will pursue a decision item to fund these system upgrades. While we will implement all portions of this recommendation possible with current technology, the essence of the change will take place once the IVR is able to handle a substantial part of the pent-up demand for information. We will make this budge request for Fiscal Year 2002.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	21	The Department of Revenue and State Treasury Department should ensure increased general fund investment revenue, reduce some processing costs, and improve Cash and Document Processing encoding accuracy by:	Department of Revenue	Agree	January 2001
		• Developing an annual mandatory EFT tax remittance liability threshold that identifies the number of larger tax filers needed to optimize sales tax investment interest earnings. • Recommending to the General Assembly statutory changes as necessary to expand mandatory Electronic Funds Transfer (EFT) for the State's larger sales tax filers and plan future expansion of EFT to other taxes collected and invested.	Department of Treasury	Agree	January 2001
2	23	The Department of Revenue should work with the Treasurer's office to reduce the amount of lost interest revenues by: • Developing methods to manually segregate larger sales tax filers, such as using colored envelopes, different labels, and multiple special zip codes. • Maximizing the number of larger filers manually processed by 9:30 a.m.	Department of Revenue	Agree	June 30, 2001
3	28	The Department should initiate a Request for Information (RFI) to identify opportunities for achieving the customer-oriented goals of the Income Tax Initiative while minimizing capital costs by outsourcing portions of the income tax processing system.	Department of Revenue	Agree	June 30, 2001
4	31	The Department should increase state income tax paperless filings by establishing achievable goals for FY 2001 (e.g., 22.1 percent) and establish milestones which keep pace with IRS' electronic filing participation for each subsequent year.	Department of Revenue	Agree	Beginning Fiscal Year 2001

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
5	33	The Department should develop a marketing plan to increase paperless state income tax filings that: • Pinpoints opportunities to educate and assist taxpayers in paperless filing methods. • Outlines plans and marketing methods that will have the highest potential impact so that projects can be targeted for budget requests. • Identifies completion dates for the majority of planned tasks. • Sets forth dates to review and/or report the results of the majority of projects.	Department of Revenue	Agree	Fiscal Year 2001
6	35	The Department of Revenue should increase income tax paperless filings by partnering with the IRS to promote federal/state electronic filing options.	Department of Revenue	Agree	Fiscal Year 2001
7	36	The Department of Revenue should develop guidelines for providing taxpayers links to private sector tax preparation services through the Revenue Web page in an effort to increase electronic filing options.	Department of Revenue	Agree	Contingent Upon Attorney General's Opinion
8	41	The Department should reduce wait time and call blockage by programming its Automatic Call Distributor system to offer all alternative information resources while a caller is on hold waiting to speak to a phone agent. These should include: • The TPS email address. • Revenue Web site address. • IVR phone number. • Forms phone number. • Telefile phone number. • Local District office locations and phone numbers. • Voice mail option. • Walk-in locations. • Any other pertinent and timely taxpayer information.	Department of Revenue	Agree	December 31, 2000

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
9	43	The Department should require TPS call center Tax Examiners to promote alternative information sources at every contact with taxpayers.	Department of Revenue	Agree	December 31, 2000
10	44	The Department could reduce wait time and call blockage by utilizing all phone lines and expanding the functionality of the IVR to include all tax types, including: • PTC information. • Corporate, Partnership, and Fiduciary tax. • Withholding tax. • Business-related taxes. • Trade Name accounts.	Department of Revenue	Agree	Fiscal Year 2002
11	46	The Department should reduce call blockage and wait times by moving the IVR to the first point of contact for all telephonic tax inquiries.	Department of Revenue	Agree	Fiscal Year 2002
12	48	The Department should determine baseline standards for all call center performance goals and develop controls to ensure the accuracy of both internal data collection and external performance reporting.	Department of Revenue	Agree	Fiscal Year 2001
13	50	The Department should establish a quantifiable baseline measure for both call center Accuracy and Level of Service, and report results internally and externally, particularly in support of budget requests.	Department of Revenue	Agree	December 31, 2000

RECOMMENDATION LOCATOR

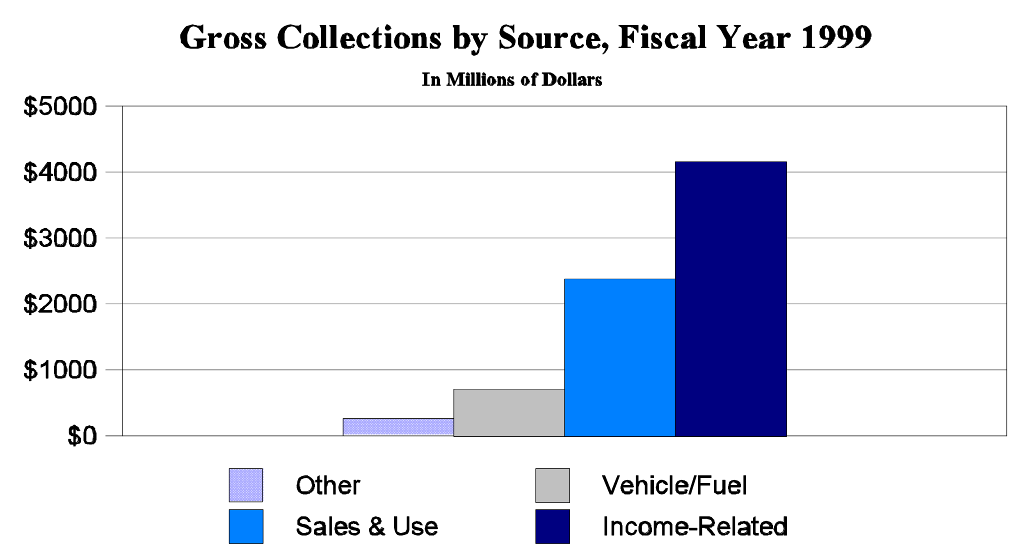
Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
14	51	We think that the Department should establish methods for monitoring, measuring, and quantifying the quality of information that phone agents provide, including: • Establishing definitions for accuracy and courtesy measures. • Defining and implementing specific criteria for lead workers to evaluate phone agent performance. • Developing a monitoring instrument that sufficiently addresses TPS objectives and the quality of work completed by a phone agent. • Establishing a method for identifying training needs.	Department of Revenue	Agree	December 31, 2000
15	53	The Department should improve telephone customer service and stabilize cost per call by: • Determining a sample size for assessing quality that is based on a specified percentage of telephone calls monitored during the hours the call center answers calls. • Including a sample of the various subject matters to be monitored during those hours (for example, Business Tax, Trade Name, Income Tax) and methods for meeting that sample plan. • Requiring that every call center phone agent who responds to tax law questions be monitored at least one time each week.	Department of Revenue	Agree	December 31, 2000

Overview

The Department of Revenue is the state agency charged with the responsibility of collecting tax, gaming, vehicle registration, and driver's licensing revenues. The Department collected nearly $7.5 billion in gross revenues for the State in Fiscal Year 1999. The primary focus of the Department is to promote voluntary compliance with the Colorado tax code through high levels of constituent service. This ideology is reflected in the Department's mission:

> …to provide exceptional service in an effective, innovative and fair manner that instills public confidence while fulfilling our duties to collect revenues, license qualified persons and enforce the laws in an atmosphere that promotes dynamic solutions through meaningful employee involvement.

Currently the State collects nearly $5.3 billion, or 70 percent, of gross revenues from Sales and Income-related taxes. The following chart depicts total gross revenues collected by the State, according to tax type, for Fiscal Year 1999.

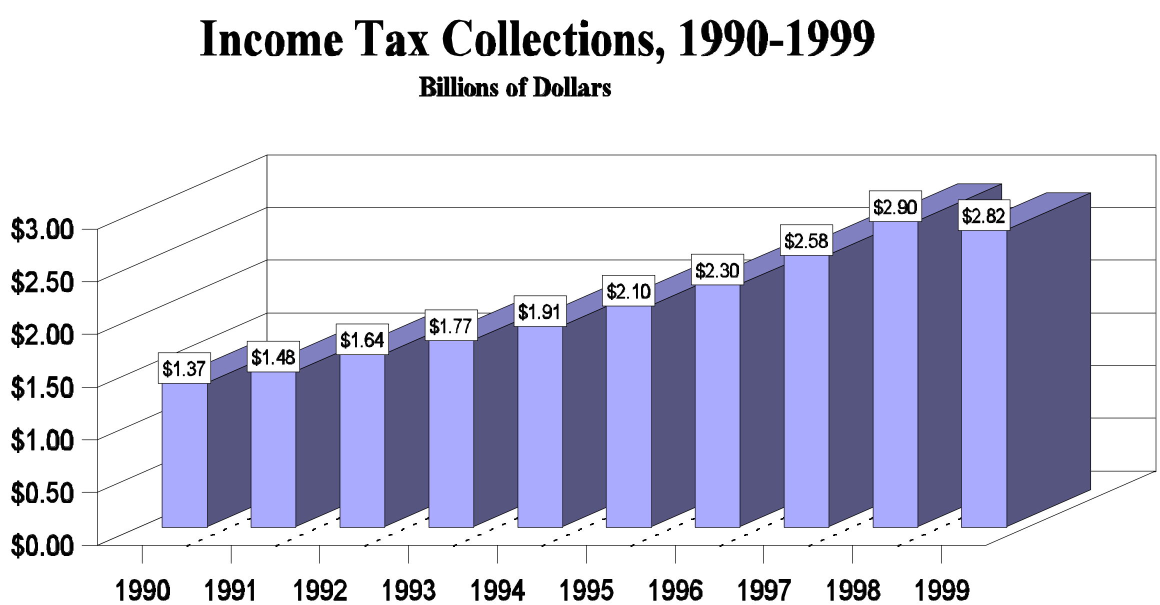


Source: DOR 1999 Annual Report.

Colorado Tax Reform

Arising out of the Tax Equity Act of 1987, income tax in Colorado is calculated from a single-rate, or "flat" tax. The Department of Revenue began collecting a flat 5 percent of federally adjusted income from taxpayers in 1988. By increasing the personal exemption and standard deduction amounts to match federal tax levels, the law decreased taxes paid by low-income residents.

The "flat tax" law was intended to make income tax policies less complicated and more efficient, thus increasing taxpayer understanding and compliance. From its inception, income tax forms became shorter and simpler. Form 1040A was reduced to 10 lines from 22 while the long form was reduced from 64 to 32 lines, subsequently reducing printing and postage costs. Individual income tax collections have more than doubled since 1990 as shown in the following chart:



Source: DOR 1999 Annual Report.

The State has reached constitutionally mandated spending limits in each of the last four years. In Fiscal Year 1998, government's allowable spending growth as determined by TABOR was 5.3 percent. Because of the booming Colorado economy, revenue collections actually increased more than 13 percent, so money had to be refunded to taxpayers. In an effort to reduce budget overflow and excess TABOR revenues, the income tax rate was reduced to 4.75 percent for tax year 1999. Additional tax reductions are being considered in the 2000 legislative session.

Customer Service in Taxation

The Department of Revenue is divided into three basic lines of business that pertain to the multiple roles of the agency: the Tax Group, the Motor Vehicle Group, and the Enforcement Group. The Department has articulated a philosophy of superior service to citizens of the State, and the Department's performance relative to customer service is the focus of this report. This audit reviews the policies and practices of certain customer service sections of the Tax Group: Cash and Document Processing, and Taxpayer Services.

The implementation of the recommendations contained in Chapters 1, 2, and 3 of this report will increase taxpayers' access to information and assistance, and result in an overall improvement to taxpayer customer services. There are also quantifiable one-time and recurring monetary benefits and cost savings to taxpayers and the Department of Revenue which could be reallocated to higher priorities. The amount of cost reductions in any single year is relative to when and how the recommendations are implemented. It should be noted that our cost savings estimates are based on a full, rather than phased-in, implementation of the recommendations. In addition, our estimates of call blockage and wait-time reduction are based on the Department's reported call center volume and do not include anticipated call-volume growth over time. Customer time savings estimates use the Colorado median wage figures of the state population. All FTE-related costs savings are based on costs reported by the Department in the Fiscal Year 2000 budget request. Interest savings for taxpayers are determined by the current year-to-date annualized interest rate for Department of Treasury investments.

Chapter 1 recommends using mandatory EFT for the state's largest sales tax filers. This will add $1.3 million to the state general fund coffers in realized interest per year. Chapter 2 recommends increasing individual income tax electronic filings to 22.1 percent for Fiscal Year 2001, and matching IRS participation levels in subsequent years. Meeting this increase in Fiscal Year 2001 can save taxpayers $47,783 in postage and $140,828 in interest they could earn from receiving their tax refunds sooner. However, more interest earnings for taxpayers could reduce interest earnings by the State. By fully implementing these recommendations, the Department of Revenue could realize a processing-cost savings of $120,237 in Fiscal Year 2001 by increasing paperless income tax filings, and additional savings each year thereafter. Our survey of taxpayers with Internet access shows the Department could save $1 million annually in individual income tax processing costs based on maximum utilization and full implementation of our recommendations.

The recommendations in Chapter 3 focus on opportunities identified at the TPS Call Center. Our estimate of maximum dollarized time savings to individual income tax filers is nearly $12 million by the end of Fiscal Year 2003 by reducing telephone wait time to 4 minutes and call blockage to 5 percent, as set forth in the Department's budget request documents. By fully implementing the recommendations in Chapter 3, the Department could avoid the cost of 10 additional call center FTE requested for Fiscal Year 2002 and 8 additional FTE requested for Fiscal Year 2003 to meet performance goals. The cost of the requested FTE would be nearly $1 million through Fiscal Year 2003. We anticipate some costs involved in implementing the recommendations in Chapter 3, however, those costs are expected to be significantly less costly than the requested FTE. We further recommend that the Department establish baseline performance measures and accuracy goals for Telephone Section FTE and predicate quality monitoring for all telephone agents. Upon implementing these recommendations, the Department could expect an FTE productivity savings of $547,153 by Fiscal Year 2003, based on the Department's historical cost per call and projected call volume.

The total savings through Fiscal Year 2003 to taxpayers and the Department of Revenue are about $12,188,611 and $3,967,390 respectively.

Cash and Document Processing

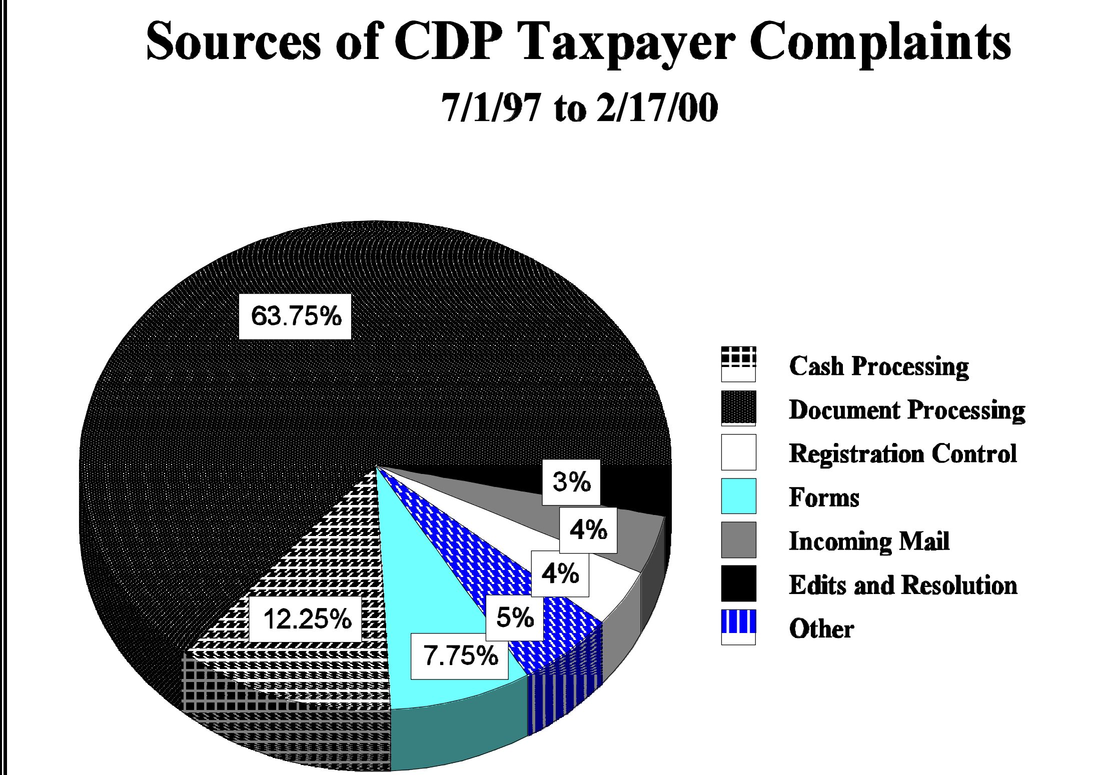
Chapter 1

Background

Most income, business, severance, and sales tax processing occurs in what the Department refers to as the Cash and Document Processing Section (CDP) "pipeline," staffed with 146.9 FTE. The term pipeline is used to describe the entire process from the time a return is received until it is ready to be archived on microfilm. Tax returns and remittances are filed at various intervals depending upon the size and nature of the filer. CDP uses automated equipment to support some processing of paper documents. However, compared to electronic alternatives, processing of paper documents is a resource-intensive manual process. Several areas are involved in the pipeline process, including those described as follows:

Cash & Document Processing Section (CDP)	**Contains several sections that are charged with processing tax payments**
Mailroom	Opens and sorts mail
Business Tax Clearing Section	Reviews return for completeness on an exception basis
Remittance Processing Section	Separates the returns from the check and deposits the checks to the State Treasury
Data Entry Section	Enters payment amounts from the tax return to the Department's records
Error Resolution Area	Resolves errors through the use of an automatic edit process
Microfilm Unit	Archives tax returns on microfilm
Source: OSA analysis of DOR 1998 and 1999 budget documents.	

The Governor's Citizen Advocate Office, located in the Department of Revenue, analyzes CDP consumer complaints. The following chart shows telephone complaints logged by the Advocate from July 1, 1997, to February 17, 2000, grouped by the various functions:



Source: Governor's Citizen Advocate Office statistics July 1, 1997, through February 17, 2000.

Further analysis of the Advocate's CDP complaint documentation shows that data entry errors made up the majority of complaints. Specifically, 41 percent of total CDP complaints resulted from data entry errors that occurred during the processing of documents and cash.

Nearly $7.5 billion in gross revenue was collected by the Department in Fiscal Year 1999, while CDP processed 5.6 million paper documents for all taxes. The number of paper documents processed by the Section has increased 10.2 percent since Fiscal Year 1995 when 4.9 million paper documents were processed through the pipeline.

Opportunities for Improving Services

The Department of Revenue mailroom received a daily average of 19,320 pieces of mail with peak volume averages of about 34,871 per day during the 1999 tax season. At certain times of the year, income taxes can account for most tax documents; however, business and sales taxes constitute the majority of the volume during most days of the year. CDP has the responsibility to open and process daily mail accurately and quickly. The goal established by the Department is to deposit 85 percent of remittances within 24 hours.

Every business and sales tax filer receives an envelope from the Department for remitting tax payments. Most remittances of large and small filers are unsegregated and thus mixed together in mailbags. Some filers use larger envelopes, called flats, rather than the envelope provided by the Department. Flats are segregated from regular mail by the post office.

Mail is collected by a CDP driver twice daily, at 2:30 a.m. and 5:30 a.m. During non-peak times, temporary staff arrive at the Section at 6:00 a.m. and begin to open envelopes for data entry. Permanent staff begin arriving at 7:00 a.m. to continue processing remittances.

CDP staff contact the Treasurer's office at 7:30 a.m. and give a ballpark estimate of the total revenue to be processed and electronically deposited into the Department of Treasury custodial accounts by day’s end. On the basis of the Department’s estimate, the Treasurer’s office begins investing revenue in short-term increments because interest rates are highest in the morning and decline throughout the day. Revenues are continually invested throughout the day as remittances are processed and electronically deposited.

We focused our review on the way CDP processes affect taxpayers and the Department of Treasury investments. We identified opportunities for the Department to increase operational efficiencies by modifying current CDP practices. We found that the Department should:

- Work with the Treasurer's office to increase general fund investment revenue by developing and expanding mandatory Electronic Funds Transfer (EFT) to include other tax groups.

- Mitigate investment interest loss by modifying current operations and procedures.

- Identify opportunities for achieving customer-oriented goals with minimal capital by outsourcing portions of the income tax processing system.

Expanding Mandatory EFT Could Increase General Funds and Reduce Data Entry Errors

The State Treasurer is the State's cash management officer responsible for the efficient management of all state cash according to Section 24-22-107, C.R.S. The State Treasurer's goals and objectives, outlined in the Department of Treasury's strategic plan, include:

- Decreasing the tax burden on Colorado citizens by investing to increase interest earned, thereby augmenting the State's revenues collected from taxes and fees.

- Accelerating receipt of all funds coming into the Treasurer's office.

- Improving cash management and ensuring adequate liquidity through better forecasting.

The Department of Treasury reported that 58 percent of the $12.7 billion invested on behalf of the State in Fiscal Year 1999 came from Department of Revenue deposits. EFT deposits totaled $2.73 billion, or 37.2 percent, of the Department's deposits. The remaining $5.1 billion in payments received by the Department was processed manually through the pipeline. The current pipeline process results in inaccurate estimates of revenue given to the Department of Treasury. The Treasurer's office reported to the Joint Budget Committee on September 7, 1999, that:

> Underestimates of revenue, according to our estimates, cost the state of Colorado about $2.9 million of interest in just the first six months of 1999…Overestimates, when they occur, also have substantial costs since the State of Colorado either has to pay for an overdraft at the bank or execute an unplanned sale of securities to raise cash.

The reported $2.9 million opportunity loss is the difference between investment earnings based on the 7:30 a.m. estimate and what could have been earned if 100 percent of deposits at days' end had been known at 7:30 a.m. The Treasurer's office reported that there are multiple reasons for inaccurate forecasts, including:

- The Department of Revenue does try to forecast accurately, but does not possess the tools needed to ensure sufficient accuracy.

- Treasury investment officers rely heavily on historical data, but changes in the tax code, disbursement of surpluses, and a rapidly changing economy can make the present very unlike the past.

While recovering the entire $2.9 million loss would not be possible without implementing 100 percent mandatory EFT for all taxpayers, expanding mandatory EFT could mitigate the loss. Processing Electronic Funds Transfers is substantially faster and more accurate than transactions that require envelopes to be opened and data entered. At least 39 states have mandatory EFT for all or some taxes and specified minimum tax liability thresholds:

- 77 percent have mandatory EFT for Withholding taxes, including AL, AK, AZ, AS, CO, CT, DE, GA, HA, ID, IN, IA, KS, KY, LA, MD, MA, MI, MN, MT, NM, NJ, NY, NC, PA, RI, SC, TX, VT, and VA.

- 72 percent have mandatory EFT for Sales taxes, including AK, AZ, AS, CA, CT, GA, FL, ID, IL, IN, IA, KY, LA, MD, MI, MN, MT, NM, NJ, NY, NC, PA, RI, SC, TN, TX, UT, and VA.

- 49.7 percent have mandatory EFT for Fuel-related taxes, including AK, AS, CT, DE, FL, GA, ID, IN, IA, MD, MN, NJ, NM, NY, PA, RI, TN, TX, WI.

- 20.5 percent have mandatory EFT for all taxes (except individual income tax) over a specified threshold, including AL, AK, ID, LA, MT, NJ, SC, and TX.

Our review of other states' practices shows that paperless payments made from a taxpayer's bank account to the Department's bank account can be used to increase the accuracy of revenue forecasts to the Department of Treasury as well as ensuring timely cash deposits. The General Accounting Office (GAO) reports that EFT provides:

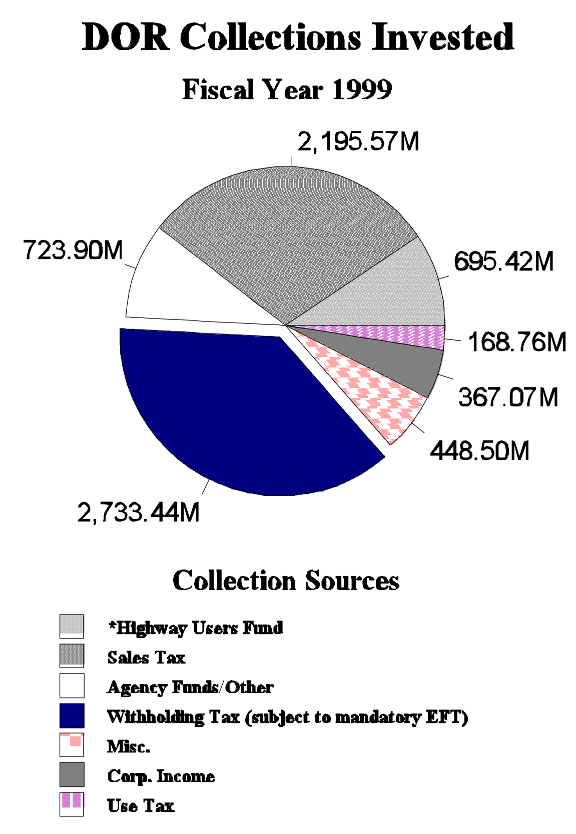
- Increased accuracy as data entry is eliminated.
- Decreased mailing and processing costs.
- Fewer delinquencies.
- Lower default rates.

The Internal Revenue Service applies mandatory EFT to all businesses with an aggregated tax liability of $250,000 or more annually. Approximately 9 percent of businesses fall into this category. The remaining 91 percent of withholding tax filers can choose to pay their taxes electronically or through the mail.

Colorado's Department of Revenue has recognized the benefits of EFT since it was initiated as an optional method of paying taxes in 1989. Statute made EFT mandatory in 1992 for withholding tax filers with a liability greater than $50,000 per year. The same statute directed that:

> The executive director [DOR] shall consult with the state treasurer regarding the formulation of such rules and regulations in order to minimize the amount of lost interest to the state general fund. (Section 39-22-604, C.R.S.)

In 1999, 6,504, or 5.2 percent, of withholding tax filers were subject to mandatory EFT. Withholding taxes account for 37.2 percent of the revenue the Department collects and invests. However, the remaining 62.8 percent of tax collections are not subject to mandatory EFT, as shown in the following chart:



Source: Department of Treasury and Department of Revenue reported 1999 collections.
* Motor Fuel Taxes collected are included in the Highway Users Fund.

Mandatory EFT for the State's largest monthly sales tax filers could capture a sizable portion of revenue in relation to the number of filers affected because the largest filers remit a disproportionately large amount of the total dollars.

Applying the IRS' 9 percent annual filer threshold and mandatory EFT to the State's top 1999 monthly sales tax filers would:

- Require about 3656 monthly sales tax filers to use EFT.

- Capture about $1.6 billion, or 76 percent, of total monthly sales taxes remitted.

- Increase sales tax investment earnings by $1,322,400.

- Improve encoding accuracy and reduce some CDP processing costs.

Although sales tax is the largest portion of monthly tax collected and invested but not subject to mandatory EFT, other tax revenue collections and investments could yield benefits from mandatory EFT. However, statutes (Section 39-22-604, C.R.S.) limit mandatory EFT to withholding tax filers with annual tax liabilities greater than $50,000.

We think the Department of Revenue and the State Treasury could increase general fund investment revenue, reduce processing costs, and improve CDP accuracy by expanding mandatory Electronic Funds Transfer (EFT) to include the top state sales tax filers.

Recommendation No. 1:

The Department of Revenue and State Treasury Department should ensure increased general fund investment revenue, reduce some processing costs, and improve Cash and Document Processing encoding accuracy by:

- Developing an annual mandatory EFT tax remittance liability threshold that identifies the number of larger tax filers needed to optimize sales tax investment interest earnings.

- Recommending to the General Assembly statutory changes as necessary to expand mandatory Electronic Funds Transfer (EFT) for the State's larger sales tax filers and plan future expansion of EFT to other taxes collected and invested.

Department of Revenue Response:

Agree. The Department agrees that annual mandatory EFT tax remittance liability thresholds should be established, and that statutory changes to mandate EFT payments should be pursued as described. The Department further agrees that these measures will serve to increase general fund investment revenue, and thus should be pursued. The Department will pursue mandatory EFT payments in concert with the Department of Treasury. Proposed legislation will be prepared by January 2001 in time for the 2001 General Assembly.

Further, the Department believes that EFT will result in lower processing costs and increased accuracy in data entry when it is combined with mandatory electronic filing of the document data as well. The Department is pursuing an electronic filing offering for sales tax taxpayers, and anticipates it will be ready by January 2001.

Department of Treasury Response:

Agree. Electronic Funds Transfer (EFT) ensures accurate and timely deposit of funds in the State's operating account. Accordingly, EFT will provide the State's investment officers with better information and allow them to invest higher percentages of the day's total deposit in higher yielding investments without endangering safety or liquidity. The large establishments for which mandatory EFT is recommended should already possess the ability to use EFT. Consequently adopting such a requirement will not impose a material burden upon the reporting companies.

Improved Manual Paper Processing Could Mitigate Some of the Lost Investment Interest Revenue

Up to $ 1.3 million in potential investment-driven general fund sales tax earnings and $5.8 million in total earnings will likely be lost in Fiscal Year 2001. Such losses will continue into the foreseeable future. The loss estimate is based on the Department of Treasury's analysis and report to the Joint Budget Committee (JBC) identifying $2.9 million in lost interest earnings from January to June 1999. This loss will occur because:

- The earliest practical date by which statutes could be amended to expand mandatory EFT tax remittances for the State's largest tax filers is July 1, 2001.

- Slower and less accurate manual systems will continue to be used to process documents, deposit cash, and serve as the basis for the Department of Treasury's daily revenue forecast.

We believe that the Department can work with the Department of Treasury to mitigate the loss to the general fund of investment interest revenue resulting from manual paper processing.

The Department of Treasury reports that interest earnings would be increased if the amount of cash processed and deposited by 9:30 a.m. were a larger segment of the total cash deposited by day's end. This would allow the Department of Treasury to make a more informed guess about the amount of cash on deposit at day's end and to invest more cash early in the day when interest rates are higher.

CDP can manually process up to about 1000 documents by 9:30 a.m. during non-peak times. We reviewed CDP's suggestions for ways to increase the number of total daily cash deposits processed by 9:30 a.m. We found the most promising methods include using colored envelopes, different labels, and multiple special ZIP codes to segregate up to 1000 larger filers. This would make them easier to recognize and prioritize for processing.

While EFT is the most effective method of reducing lost interest revenue, the Department and State Treasurer's office could develop mailing methods to mitigate the amount of lost interest revenues from manual paper processings.

Recommendation No. 2:

The Department of Revenue should work with the Treasurer's office to reduce the amount of lost interest revenues by:

- Developing methods to manually segregate larger sales tax filers, such as using colored envelopes, different labels, and multiple special zip codes.

- Maximizing the number of larger filers manually processed by 9:30 a.m.

Department of Revenue Response:

Agree. The Department is experimenting with methods to identify larger sales tax filers. In April, specially marked return envelopes were enclosed with tax returns. The Department will track how many taxpayers utilized these envelopes when returns are filed in May. If successful, this pilot will be fully implemented.

Several cash management practices are currently utilized. The Department already employs a unique zip code. Further, the Department contracts with USPS to sort mail by ZIP + 4, which segregates mail by tax type so that daily processing priorities based on due dates are established. When large checks are identified during the extraction process, they are placed on the fast track for deposit. Temporary labor is utilized to match resources with expected volume.

Outsourcing Could Help Achieve Customer Service-Oriented Goals

The peak income tax season starts January 1 and ends in April. During this period for Fiscal Year 1999 the Department processed 1.8 million income tax returns and $897.8 million in refunds. To meet this service load, the Department used 146.9 full-time staff and 100 to 135 temporary employees, and rented 10,000 to 12,000 square feet of additional work space.

The computer system used to process income tax returns in 1999 is over 35 years old. By necessity, it is written in five programming languages because, over time, it has become difficult to identify programmers skilled in the highly structured languages of the 1960s. Revisions have caused the system to lack common internal logic, and the data are not always integrated.

In 1994 the Department approved and the Legislature appropriated the funds to build a new income tax processing system with customer-oriented goals, including accuracy, speed, and convenience. The new system was supposed to:

- Provide customer service that is accurate, rapid, and fair.

- Offer the taxpayer convenient filing options (including paperless filing) and other choices.

- Allow integration of data, ease of making programming changes, and expansion of functions.

- Meet the demands of the 21st century.

The Department reported to the JBC that it had spent about $12.5 million on the project by November of 1999, with Telefile and Netfile being the only salvageable components worth a total cost of $1.9 million. Because the remaining $10.6 million cannot be recovered:

- The 35-year-old system, deemed inadequate in 1994 when 1.9 million income tax returns and 1.1 million refunds were processed, must be used to process 31.6 percent more returns and 63.6 percent more refunds estimated for Fiscal Year 2000.

- The system must be used to process an ever-growing volume of returns and refunds for the foreseeable future.

- The promise of the new integrated system's customer-oriented goals of accuracy, speed, and convenience will not be achieved.

The Department is not alone. To date, the IRS has spent $4 billion on modernizing the agency's beleaguered information technology systems. "Even so, the tax system's modernization program has been a complete disaster," according to the co-chairman of the National Commission on Restructuring the IRS.

We looked for alternatives that could satisfy the customer-oriented goals of Colorado's Income Tax Initiative Project with minimal capital costs.

The IRS reports that the agency, after three years of unrelenting criticism, is examining options for outsourcing tax return data processing. Toward the end, IRS documents indicate a two-tier proposal:

- Near-term replacement of the aging manual data entry system.

- Longer-term pursuit of outsourcing and the deployment of imaging and other advanced technologies.

Like public and private agencies across the county, state tax administration agencies have taken a number of steps to outsource certain aspects of their operations to third parties. Primarily, these have been in the area of delinquent tax collections. One state is experimenting with contract audits, and some states have also contracted out substantial parts of the return processing function. In particular, over 20 states, including Colorado, use financial institutions to provide lock box services and remittance processing services. Indiana and Massachusetts use private contractors for key entry and/or imaging of individual income tax returns.

The most aggressive use of outsourcing comes from New York. The State Department of Taxation and Finance has contracted its entire individual income tax processing to a third-party contractor. Beginning with the 1995 tax season, the contractor began receiving returns and processing remittances. Capturing data, imaging returns, verification, and data entry were required.

In New York, the contractor is responsible for processing the return to the point of delivering machine-readable data to the tax agency. State employees then perform the various higher-level examination and compliance functions and processing of refunds.

A ten-year contract was awarded through a competitive procurement process. The contract provides third-party compensation for fixed expenses, a separate set of fees for the actual forms, and a process that allows adjustments for effort and expense associated with the processing of each form type. The contractor's processing responsibilities are predicated on timeliness and accuracy processing standards and liquidated damage provisions which ensure that the state is made whole by compensating for any late interest paid on timely filed (but late processed) returns. This is in addition to damages paid for failure to comply with accuracy standards.

Within 11 months after being awarded a contract, the contractor provided for the design and construction of a 55,000-square foot facility and the complete renovation and equipment for a second facility of comparable size. Optical scanning and intelligent character recognition equipment and 110 work stations were acquired, installed, tested, and certified. A complex application system driven by automated workflow software was also developed for production. A staff of 2500 was recruited, selected, trained, and assigned to a variety of functions ranging from mail opening to data verification. Finally, an operations plan was developed and implemented in accordance with highly structured, detailed work-flow procedures.

Gain-sharing provisions provide both the contractor and the state with opportunities and incentives to improve the efficiency of the program through joint reengineering efforts. This reduces the operating expense, enabling the contractor to achieve a larger profit margin and the state to reduce its overall contract fees.

The first year, the contractor processed more than half of New York's 10 million tax returns received, while the state processed the balance. The contract sets forth a plan to eventually outsource front-end processing of all personal income tax returns. The reported benefits of New York's outsourcing effort include:

- Savings between $20.4 and $76.5 million over the span of the 10-year contract.

- About 800,000 refunds valued at $441 million were paid 45 days earlier than in previous years.

- Front-end capital costs were absorbed by the contractor.

- Agency processing standards in the area of timely deposits and timely returns processing have been consistently met or exceeded.

- The interest paid by New York on all timely-filed late-paid state tax returns has been minimized during critical peak time frames and throughout the processing seasons.

- Maximum processing capacity was increased from 75,000 returns per day to more than 110,000 returns per day while more return data are captured.

- Agency ability to focus staff and capital on their core competencies has increased because the burden of procuring state-of-the-art technology, staffing, training, and managing a seasonal workforce is shouldered by the contractor.

- Future “one-stop shopping” potential which could enable department staff to communicate directly with the taxpayer via telephone, refer to images of tax returns available at each work station, and update, online, the taxpayer’s computerized account records.

There are many questions to be answered regarding the suitability, efficacy, and legal constraints of outsourcing portions of Colorado’s income tax processing system. However, Colorado’s procurement rules allow the use of a Request for Information (RFI) to obtain preliminary information about a market, types of available service, or a product when there’s not enough information available to write an adequate specification or work statement.

We think the Department of Revenue could identify opportunities for achieving the customer-oriented accuracy, speed and convenience goals of the Income Tax Initiative while minimizing capital costs by outsourcing portions of the income tax processing system. We believe that this could be done within the constraints of the State Personnel System. The outsourcing of government functions, which does not result in the separation of Career Service employees, is allowed by the State Constitution and Section 24-50-503 and 504, C.R.S.

Recommendation No. 3:

The Department should initiate a Request for Information (RFI) to identify opportunities for achieving the customer-oriented goals of the Income Tax Initiative while minimizing capital costs by outsourcing portions of the income tax processing system.

Department of Revenue Response:

Agree. The Department will also pursue strategies via the RFI to pursue the goals of an integrated tax system. An RFI will be completed by June 30, 2001.

Paperless Filing

Chapter 2

Background

Though every section and organizational unit within the Department of Revenue is presumably a “customer service” unit, the Taxpayer Service Section (TPS) is the section that is most likely to facilitate contact with individual taxpayers. This Section is responsible for administering both corporate and individual income tax accounts as well as providing a variety of tax information to citizens throughout the State. To promote TPS efforts, the Public Information and Education Section is charged with the distribution of a variety of tax publications designed to facilitate greater filer compliance throughout the State. This group also serves as a media liaison for the Department, and maintains the Department's Web page.

The Department of Revenue’s focus is on streamlining revenue collections in an effective and efficient manner. The Taxpayer Service Section and Public Information and Education Section work to that end by encouraging taxpayers to file personal income taxes electronically. As part of the Colorado Income Tax Initiative from Fiscal Year 1995 through Fiscal Year 1999, the Department spent over $1.9 million to offer two alternative filing options that taxpayers can use when filing income tax returns: Telefile and Netfile.

Opportunities for Improving Customer Service to Taxpayers

We focused our review on how well the Taxpayer Service Section provides information to taxpayers. The Section is staffed by 78 FTE, with a budget of approximately $4.3 million for Fiscal Year 2000. We have observed opportunities to improve FTE productivity and increase paperless filings.

The opportunities outlined below relate to improving customer service by increasing access to the available taxpayer resources. To take advantage of these opportunities, the Taxpayer Service Section should:

- Develop and implement a goal-oriented marketing plan that identifies strategies and opportunities to increase income tax paperless filing.
- Partner with the IRS to promote the Federal/State Electronic Filing program.
- Increase taxpayer electronic filing options.

Paperless Filing Methods Save Money and Speed Refunds

The Taxpayer Service Section maintains Telefile, a system that provides taxpayers with the option of filing their taxes over the phone. This filing option is offered through an Interactive Voice Response (IVR) telephone system that requires the caller to provide certain information through touch-tone or voice prompts. The other option that the Department created for filing a state income tax is Netfile, a filing option by which those with access to a computer and modem can complete and transmit their tax returns electronically. Similar to Telefile, Netfile offers benefits to both the taxpayer and the Department, including:

- Widespread use of paperless filing programs can eventually offset the cost of hardware purchase, installation, and programming through savings in the cost of printing and mailing personal income tax documents.
- The cost for filing an electronic return is less than those mailed in by the taxpayer. The estimated cost for an electronically filed income tax return is $.419, while the Department's cost for processing a paper return is $1.25.
- The Department receives more accurate tax information without the added expense of human capital to manually open, sort, data enter, and process tax return information.
- Taxpaying customers can file taxes immediately, accurately, and at their own convenience.
- Electronically filed tax returns result in faster processing times and refunds.

Federal income tax electronic filing became available through private service providers in 1990. By 1998, 8 percent of Colorado taxpayers were taking advantage of the Federal/State Electronic Filing (FSEF) program. When Colorado's Netfile and Telefile option were put in place during the 1999 tax filing season, it was projected that 28 percent of taxpayers would use these methods for filing personal income taxes.

In an effort to establish a reasonable standard for paperless filing participation, we compared federal and state paperless filing participation during similar time periods as shown in the following chart:

Comparison of Paperless Personal Income Tax Filings						
Internal Revenue Service (nationwide)					**Colorado DOR**	
Filing Period	**1/1/1998–4/24/1998**		**1/1/1999–4/23/1999**		**1/1/1999–4/24/1999**	
Total Filers	110,088,000	100 %	111,507,000	**100 %**	1,960,000	**100 %**
FSEF	18,402,000	16.7 %	23,346,000	**21 %**	251,937	**12.85%**
Telefile	5,946,000	5.4%	5,647,000	**5%**	42,085	**2.1 %**
Netfile	n/a	n/a	n/a	**n/a**	29,576	**1.5%**
Total Paperless	24,348,000	22.1 %	28,993,000	**26 %**	323,600	**16.5 %**
Source: IRS reports, DOR quarterly electronic filing report, DOR budget analyst.						

Colorado's total paperless filings between January and April 1999 were 16.5 percent, 37 percent less than that achieved by the IRS during the same period. A total of 3.6 percent of state taxpayers filed their state income tax using Netfile and Telefile, 87 percent lower than projected.

The IRS reports that their increase in paperless filing usage is based on the completion and review of projects outlined in a comprehensive marketing strategy. The plan was developed in response to a Congressional mandate that the IRS achieve 80 percent paperless filings by Fiscal Year 2007.

We believe that the Department could increase paperless filing participation at a pace consistent with the IRS. Our review indicates that the Department could increase income tax paperless filings 25 percent by Fiscal Year 2001, consistent with increases and the 22.1 percent participation level achieved by the IRS in 1998.

Recommendation No. 4:

The Department should increase state income tax paperless filings by establishing achievable goals for Fiscal Year 2001 (e.g., 22.1 percent) and establish milestones which keep pace with IRS' electronic filing participation for each subsequent year.

Department of Revenue Response:

Agree. The Department will establish paperless filing goals and milestone goals beginning with FY2001. The Department will work with the IRS to determine the level of resources and systems needed to achieve an 80% paperless filings level by Fiscal Year 2007.

IRS statistics indicate that 95% of Coloradans filing electronic federal returns also filed electronic state returns. According to a survey done by the Federation of Tax Administrators, Colorado is at the average for all states, with 23% of our tax paying population using electronic filing methods.

A Marketing Plan Helps Achieve Goals

The Public Information and Education Section is the marketing arm for TPS. The Section prints and distributes all tax forms and booklets, maintains the Web page, provides education and training, and is the media liaison for the Section. TPS allocates 5.5 of its 78 FTE to the Public Information and Education Section. The Section produces its own annual strategy, which directs most promotional material to high schools, public libraries, state employees, and tax practitioners. The Public Information and Education Section was budgeted $100,000 in Fiscal Year 1999 for marketing purposes, but spent only $49,000. Its marketing budget was reduced to $44,000 for Fiscal Year 2000.

The TPS Public Information and Education Section contracted with a private marketing firm to develop a marketing plan for Netfile and Telefile for Fiscal Year 2000. The cost of the plan was $11,849, nearly 25 percent of the TPS marketing budget. The "overarching strategy" of the plan was to:

> ...use Netfile and Telefile as planks in an overall platform to become the "one-stop" tax solution for Colorado taxpayers in FY2000.

In order to accomplish its "overarching strategy," the marketing plan, developed on behalf of the Section, set forth 29 tasks with completion deadlines. The latest completion deadline was April 28, 2000. The Section reports that as of February 2000, 6 of the 29 tasks were partially or fully implemented.

The IRS' marketing plan is updated annually. It quantifies project costs and benefits, and establishes a goal for each electronic filing promotion. The agency is required to submit a report to Congress annually identifying which projects were successful and which were not. Along with the annual report, the IRS is required to submit an update of the electronic filing marketing plan for the upcoming tax year that:

- Pinpoints opportunities to educate and assist taxpayers in paperless filing methods.
- Outlines plans and marketing methods that will have the highest potential impact so that projects can be targeted for budget requests.
- Identifies completion dates for the majority of planned tasks.
- Sets forth dates to review and/or report the results of the majority of projects.

Our review of the Public Information and Education Section's Fiscal Year 2000 plan found that:

- The Section does not produce information that identifies which projects have the highest potential impact so that costs can be targeted for budget requests.
- The Section does not mark completion dates for the majority of planned tasks.
- The Section does not review or report current status or final results for the majority of projects.

We think that the Department could increase taxpayer paperless filing participation by developing a comprehensive goal-oriented marketing plan.

Recommendation No. 5:

The Department should develop a marketing plan to increase paperless state income tax filings that:

- Pinpoints opportunities to educate and assist taxpayers in paperless filing methods.
- Outlines plans and marketing methods that will have the highest potential impact so that projects can be targeted for budget requests.
- Identifies completion dates for the majority of planned tasks.
- Sets forth dates to review and/or report the results of the majority of projects.

Department of Revenue Response:

Agree. The Department will develop a marketing plan that identifies opportunities to educate and assist taxpayers in paperless filing in Fiscal Year 2001.

An internally generated plan in place for the past filing season did result in increased filings. Further, our survey of netfilers revealed that 71% of netfilers attributed their knowledge of netfile to efforts that were part of this plan.

Collaboration Can Amplify Marketing Resources

The TPS Public Information and Education Section employs one FTE to train tax preparers and volunteers on annual changes in state tax policy. The Section held 32 training seminars averaging about 3 hours each and totaling 92 hours in Fiscal Year 2000. The seminars were conducted between November 1999 and the first week of February 2000 at various locations in Denver and Colorado Springs..

Our survey of other states' practices identified Pennsylvania for best practices in marketing electronic filing options. In conjunction with the IRS, Pennsylvania holds "Paperless Filing Mall Promotions" across the state during income tax season to assist citizens with electronic filing. Taxpayers are encouraged to bring their state-assigned personal identification number and income tax materials along with them to promotion sites. Computers and telephones are available, and Pennsylvania revenue representatives assist in electronic filing on the spot. Those who file during the mall promotions are given a free gift from the Pennsylvania Lottery, including instant Lottery tickets. Pennsylvania officials report positive results from their marketing efforts.

Pennsylvania's Telefile system was put in place in 1998 for tax year 1997 filings. At that time, 223,660 returns were filed through the Telefile system, while another 250,784 were filed electronically. Pennsylvania's electronically submitted income tax returns totaled 9 percent in Fiscal Year 1998. As a result of extensive marketing efforts, in tax year 1998 Pennsylvania's Telefile system led the nation with over 483,000 returns filed by taxpayers. That state's Netfile and Telefile income tax returns nearly doubled to 17.24 percent in Fiscal Year 1999. Compared with some other states, Colorado does not have widespread market exposure encouraging taxpayers to file returns electronically.

IRS employees in Colorado work to certify Volunteers Income Tax Assistance (VITA) and American Association of Retired Persons (AARP) volunteers as tax preparers. These volunteers staff 194 sites throughout the State between January and April to assist citizens with federal and state income tax preparation. TPS could partner with the IRS as Pennsylvania does. TPS could also identify other opportunities to encourage taxpayers to file individual returns electronically. For example, the Department's Motor Vehicle Division has kiosks in malls and driver's license offices throughout the State from which the Department could offer promotional opportunities.

We think the Department could increase Netfile and Telefile returns and increase customer service by partnering with the IRS to promote paperless income tax filing options.

Recommendation No. 6:

The Department of Revenue should increase income tax paperless filings by partnering with the IRS to promote federal/state electronic filing options.

Department of Revenue Response:

Agree. The Department will partner with IRS wherever practical to increase paperless filings for Fiscal Year 2001.

Electronic Filing Options Could Be Expanded

Colorado, like 40 other states that have a personal income tax, maintains a Web site where taxpayers can get information and download forms. The Colorado DOR reports that the Web site was visited 1.75 million times in Fiscal Year 1999. As part of an effort to save paper transaction costs and increase customer convenience, 32 of 41 states have created links through their Revenue Web sites to Internet Service Providers (ISP) this year in an effort to expand electronic filing options. When a consumer clicks on the highlighted "link," depending on which link is chosen, he is brought to the Internet site of a private tax preparation service. Taxpayers can then complete and submit federal and state taxes from a personal computer.

The IRS began providing links to consumers through its Web site in Fiscal Year 1999. The agency currently links to 23 separate online filing software companies. Taxpayers filing income taxes through their home computers increased 161 percent when links were provided through the IRS Web site. Colorado's DOR's Web site does not offer the customer a link to tax service providers. The Colorado Homepage Fast Track Team, maintained by State Archives and composed of state agency Web site managers, has adopted an informal policy that prohibits linking state Web pages to commercial sites. Audit work verifies that no statute, regulation, or law exists that prohibits state departments from linking to Internet Service Providers for the purpose of extending taxpayer filing options.

We think that the DOR could increase paperless filing of individual income tax returns by working with the Colorado Homepage Fast Track Team to establish guidelines for linking to online private tax preparation services through the DOR Web page.

Recommendation No. 7:

The Department of Revenue should develop guidelines for providing taxpayers links to private sector tax preparation services through the Revenue Web page in an effort to increase electronic filing options.

Department of Revenue Response:

Agree. The Department will request an Attorney General opinion to offer assurance that providing taxpayers links to private sector tax preparers will not subject the state to unwarranted liability, and once assured, will provide such links.

Taxpayer Assistance Call Center

Chapter 3

Background

The primary way the Department facilitates contact with citizens is by maintaining a call center staffed with tax examiners who are phone agents trained to address taxpayer inquiries.

The Taxpayer Assistance Call Center employs full-time phone agents who have a range of skills. They also employ part-time temporary staff to augment staffing levels during peak call periods, such as income tax season. To streamline telephone inquiries, this unit of TPS deploys:

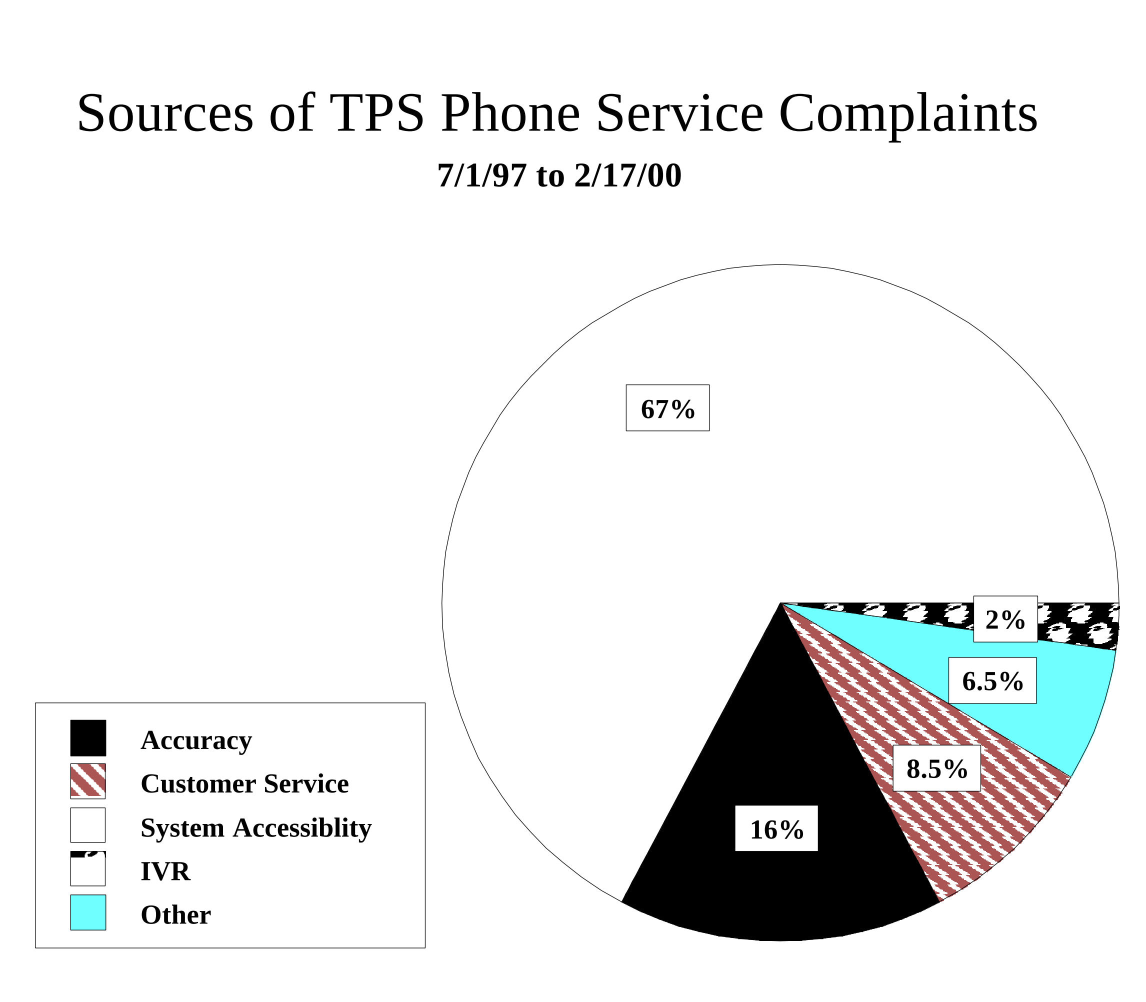
- 120 telephone lines that run from various trunks into a PBX Switch at the call center. Each line is dedicated to an area of tax inquiry (such as individual income tax, trade name, severance, and corporate income tax). Taxpayers with questions about severance tax call a specific phone number, while those calling with income tax questions dial the "income tax" phone number.

- An Automatic Call Distributor (ACD) system coupled with a call router (Symposium) that directs tax inquiries to agents by matching the type of phone call to the skillset of the agent.

- The Meridan Mail (voice mail) system, which works in conjunction with Symposium, allows the caller an opportunity to listen to tax information designated by the caller's telephone prompts.

Callers dial one of eight published tax information phone numbers and are received into the call center system at the PBX Switch. Here callers make numerical prompts to specify their tax needs. The Symposium call router is accentuated by the Meridan Mail system. The Meridian Mail system offers callers choices of how they want to be routed through the system and to an agent. Depending on how callers prompt the system, they are directed to either the IVR, voice mail, or the ACD queue. From the onset of the call, taxpayers can bypass Meridian Mail tax information scripts and prompt directly to a phone agent. If callers choose to prompt to an agent, they will likely hold in queue until a phone agent who is qualified to answer their specific questions becomes available.

Busy signals and excessive wait times for taxpayers comprised 67 percent of the phone service complaints documented by the Department of Revenue Citizen Advocate Office from July 1, 1997, to February 17, 2000.



Source: Governor's Citizen Advocate Office statistics July 1, 1997, through February 17, 2000.

The Department estimated that 414,372 taxpayers will receive a busy signal, while another 418,283 will wait in queue for an average of six minutes to speak to a phone agent in Fiscal Year 2000. We surveyed the call center by making 115 separate calls on the income and business tax lines from February 2000 through mid-March 2000. We found that wait time for income tax callers averaged 31.5 minutes, ranging between 20 and 45 minutes. We received a busy signal 62.5 percent of the time, and experienced 100 percent blockage on some days. We rarely experienced a busy signal on the business tax line (14 percent), yet we waited an average of 38.5 minutes to speak to a phone agent.

The Department's response to citizens' complaints about call blockage (busy signal) and excessive wait times, beginning in Fiscal Year 1999, was to upgrade the phone system including the additional trunk lines to lessen call blockage.

The Department reports that additional changes have been limited by a number of factors including:

- The age of the telephone system.
- Budget limitations.
- The Department's IT capacity.

Over the next three years, 23 additional FTE have been requested by the Department to work in the call center and to meet proposed performance objectives. Contingent on receiving that additional staffing, the Department reports that the call center will reduce call blockage to 5 percent with less than a 4-minute wait time in queue by Fiscal Year 2003.

Opportunities for Improving Customer Service to Taxpayers

The growth of call volume is a certainty, while the future availability of funding for added FTE is not. Consequently, we focused on comparatively less costly alternatives the Department should consider before requesting additional FTE for Fiscal Year 2002, including :

- Maximizing the use of all Department information resources.

- Making the Interactive Voice Response (IVR) telephone system the first point of contact for TPS callers.

- Upgrading the IVR system to provide taxpayers with information on all tax types.

- Establishing baseline performance standards.

- Developing an Accuracy standard and establishing quality-related customer service goals.

Our recommendations could improve the wait time, call blockage, and quality of information that is being provided to customers.

Reducing TPS Call Volume Will Improve Customer Service

The Department reports that during income tax season, call blockage can rise to 100 percent at peaks, and wait time frequently exceeds 20 minutes. Our audit method shows that the call center experienced 62.5 percent blockage and an average 31.5-minute wait time on the income tax line during the Fiscal Year 2000 income tax season, while we experienced 100 percent blockage on some days (when more than three call attempts were made).

When callers succeed in reaching the ACD queue, they are automatically advised on the anticipated wait time before they can speak to a phone agent. The Department reports the number of callers that abandon the call when they are holding, as follows:

Taxpayer Call Center Wait Times (Monthly Average)

Month/Year	Average Wait Time/minutes	Number of calls abandoned after waiting 4 or more minutes
January 1999	3.3	2,376 or 18%
February 1999	5.1	4,153 or 18%
March 1999	6.0	6,314 or 23%
April 1-15, 1999	6.2	3,728 or 21%
April 1999	6.6	6,571 or 23%
May 1999	7.4	6,395 or 30%
June 1999	11.5	9,990 or 39%
July 1999	14.9	10,006 or 40%

Source: DOR 1999 Strategic Plan, Footnote 242.

Pennsylvania began advising callers of all alternative sources of information through prerecorded messages played repeatedly for taxpayers waiting in queue to speak to a phone agent. When the queue messaging system was put place in 1998, Pennsylvania's number of abandoned calls increased. Over a two-week period the state conducted a survey of callers who hung up in queue and found that 75 percent abandoned the call to get information from one of the recommended sources of tax information. Further, the state's tax information Web site hits have nearly doubled since the queue-messaging system was implemented in Fiscal Year 1998.

Colorado's TPS call center Automatic Call Distribution system could be reprogrammed to give callers information while waiting in the ACD queue. Callers could be advised of other sources of tax information while they are holding for an agent, including the TPS email address; Revenue Web site address; IVR phone number; forms-ordering phone number; Telefile phone number; local District office locations and phone numbers; voice mail options; walk-in locations; and any other pertinent and timely taxpayer information. Such information could enable customers to independently get the tax information they need.

We think that the Department could reduce call wait times and call blockages for minimal cost by implementing a system to inform callers holding in queue of alternative sources of tax information.

Recommendation No. 8:

The Department should reduce wait time and call blockage by programming its Automatic Call Distributor system to offer all alternative information resources while a caller is on hold waiting to speak to a phone agent. These should include:

- The TPS email address.
- Revenue Web site address.
- IVR phone number.
- Forms phone number.
- Telefile phone number.
- Local District office locations and phone numbers.
- Voice mail option.
- Walk-in locations.
- Any other pertinent and timely taxpayer information.

Department of Revenue Response:

Agree. The Department will change the phone system to offer information about alternative sources of tax information other than the phone center. Some of these changes have been made. All changes possible with current technology will have been made by December 31, 2000.

Call Center Tax Examiners Could Promote Alternative Tax Information Resources to Callers

TPS Tax Examiners are often taxpayers' only "live" interaction with the Department of Revenue. We listened to a sample of taxpayer telephone inquiries to categorize the types of calls received by the call center. We found that:

- 52.3 percent of inquiries could have been answered through the information provided on the Revenue Web page. For example, all tax law "FYIs" recited by call center agents are available in full form on the DOR Web page. Further, all tax forms and booklets can be downloaded from the Web site.

- 47.6 percent of tax information questions could have been answered by information provided in the Meridian Mail system and IVR . For example, the IVR gives specific information significant to personal income taxpayers' accounts and allows callers to set up agreements to pay on delinquencies. The Meridian Mail system functions to give answers to frequently asked questions, such as information on applying for a trade name.

- 9.2 percent of callers were contacting the phone center to get the Web site address.

- 18.2 percent of callers surveyed about Internet access chose to abandon the call and get information from the Web site. Calls were abandoned after phone agents were asked to elaborate on the information contained on the Web site.

Private sector call center industry standards suggest that call center telephone agents should "solicit or propose information that is most advantageous to the organization." In the case of the Department's TPS call center, our audit work shows that reducing redundant call volume would subsequently reduce call blockage, benefitting both taxpayers and agent productivity.

The New Century Colorado initiative was launched in Fiscal Year 1999 to identify ways to make government more efficient and effective. One of the goals is to improve access to and interaction with Colorado government. We determined that the Taxpayer Service Section has opportunities to increase the number of calls answered by agents 52 percent, or 217,507 calls, based on Fiscal Year 2000 call projections. This increase in access will reduce call blockage to 25 percent.

We think that the Department should require TPS call center telephone agents to promote alternative information sources at every point of contact with taxpayers.

Recommendation No. 9:

The Department should require TPS call center Tax Examiners to promote alternative information sources at every contact with taxpayers.

Department of Revenue Response:

Agree. In conjunction with Recommendation Number Eight, the phone center agents will inform all callers of alternative sources of tax information once the appropriate systems have been realigned or developed. As with Recommendation No. 8, all changes possible with current technology will have been made by December 31, 2000.

IVR Information Could Be Expanded to Include All Tax Types

Tax questions other than those relating to individual income tax constituted approximately 60 percent of all calls at the TPS call center in Fiscal Years 1998 and 1999. However, as the system is configured, only individual income tax inquiries can be handled directly through the IVR. Business, sales and use, trade name registration, and all other taxpayers with questions must wait in queue to talk to a phone agent and cannot access their account information through the IVR. This contributes to the reported six-minute average wait time and call blockage of nearly 50 percent.

In the Department's 1998 Strategic Plan, the Section set forth a plan to increase the access to the call center. Part of the plan was to upgrade IVR servers to handle more calls and reduce call blockage. The Department acknowledged the need to continue to use IVR technology to reduce the number of telephone calls that must be answered and processed by tax examiners.

The IVR has two separate servers: one for income tax and the other for forms requests. Each server has 24 telephone lines dedicated to it. The forms server uses 8 lines while income tax information is provided over 28 telephone lines. TPS reserves 2 phone lines for system-testing purposes. In sum, there are currently 10 IVR phone lines that are unused, representing a value loss of $352,280 a year.

Our survey of other state taxpayer call center systems indicates that it is best practice to maximize opportunities to answer taxpayer inquiries without speaking to a phone agent. This is exemplified by California's and Pennsylvania's tax IVR systems, which allow callers to access "account" information about most taxes, including:

- Income Tax.
- Rent Rebate.
- Property Tax.
- Business Entity Account Information.

We think that the Department could increase customer service by enabling consumers to access and enter account information for all tax types.

Recommendation No. 10:

The Department could reduce wait time and call blockage by utilizing all phone lines and expanding the functionality of the IVR to include all tax types, including:

- PTC information.
- Corporate, Partnership, and Fiduciary tax.
- Withholding tax.
- Business-related taxes.
- Trade Name accounts.

Department of Revenue Response:

Agree. The Department will explore options, including outsourcing, for providing a more sophisticated IVR which can interact with both income and business tax systems and can offer taxpayers an alternative to speaking with a live agent when seeking account service or general information. Any option will require a decision item to fund this development. The budget request will be submitted for the Fiscal Year 2002 budget cycle.

While the Department feels that this recommendation is an effective way to meet growing taxpayer interactive demands, this change in our service delivery will require a more sophisticated telephone switch and IVR system. The Department will pursue a decision item to fund the system upgrades.

The Income Tax and Forms IVR Could Be the First Point of Contact for TPS Callers

Interactive Voice Response technology allows taxpayers to "answer their own questions" by accessing data from a host computer. It provides 24-hour, 7-day-a-week responses to routine questions without the intervention of an agent. The idea is to free trained agents to answer more complicated tax questions. Colorado's Income Tax and Forms IVR offers callers:

- Personalized income tax information and payment options.
- Forms ordering via voice mail.
- An up-front option to prompt to a phone agent.

Colorado's Income Tax IVR has experienced no "functional downtime" since its implementation in Fiscal Year 1996. Its capacity has not been expanded and no major improvements have been made. The system was designed to be both flexible and expandable. Currently 36 of the system's 48 dedicated phone lines are in use. It is important to note that the IVR answers nearly 100 percent of its calls efficiently and accurately. The average IVR call lasts 2.2 minutes, and callers rarely experience a busy signal. The DOR reports that the IVR accepted 11.7 percent of taxpayers' calls in Fiscal Year 1998 and 12.7 percent of calls in Fiscal Year 1999 as shown in the following chart:

Total Calls Accepted in the Call Center				
FY	**Voice Mail**	**Agents**	**IVR**	**Total Calls**
1998	760,261	502,884	167,612	1,430,757
1999	713,441	496,302	176,486	1,386,229
Source: DOR budget request document, change request number 101.				

The state of California had a history of excessive call blockage and wait times at their taxpayer call center. Like Colorado, they had also requested additional FTE to meet their customer service goals. In lieu of additional FTE, California placed the IVR "up front" in Fiscal Year 1999, making it the first point of contact for all callers. This practically eliminated blockage because IVR capacity allows all calls to be answered. Moving the IVR to the first point of contact for callers allowed California to raise its call center performance expectations and goals as follows:

- 100 percent of taxpayer calls will be answered (no blockage).
- 80 percent of taxpayer calls are expected to be answered within 120 seconds.

Audit results show that about 48 percent of TPS' agent-assisted calls could have been handled by the Income Tax and Forms IVR. The IVR has the current capacity to handle a maximum call load of 2.4 million calls per year during peak hours (7 a.m.–7 p.m.), which is equivalent to the call answering capacity of 147.5 FTE based on the Department's reported agent call load of 16,262 calls per year.

We think that moving the IVR to the first point of contact for all callers could nearly eliminate call blockage and subsequently reduce wait time.

Recommendation No. 11:

The Department should reduce call blockage and wait times by moving the IVR to the first point of contact for all telephonic tax inquiries.

Department of Revenue Response:

Agree. The Department will pursue opportunities to upgrade and move the IVR system to the caller's first point of contact. The Department will implement this suggestion prior to December 31, 2000, if current technology is sufficient to support the increased volume. If more sophisticated technology is required to implement this recommendation, this capacity will be included in the budget request for system upgrades for Fiscal Year 2002.

Measuring Call Center Performance

According to the Office of State Planning and Budgeting (OSPB), state agencies are required to establish baseline performance measures. These measures serve as part of the analysis and detailed justification that is required in support of budget requests. OSPB's budget request process adopted pursuant to Section 2-3-207, C.R.S., requires that:

- The strategic plan, especially prioritized objectives, should drive changes in the budget, not vice versa.
- All requests should provide meaningful measures of what the public will receive for dollars expended by government.

- Departments should analyze their operations to identify opportunities for greater efficiency, reduced duplication, and increased effectiveness.

The TPS Call Center measures and reports efficiency and effectiveness in terms of Level of Access and Delay time. Both measures relate to the quantity of calls serviced by agents. Level of Access is quantified with a percentage based on the likelihood that a call will result in a busy signal (blockage). For example, a 20 percent call blockage means that one in every five callers will experience a busy signal. Delay time is quantified by the time that elapses from when a caller enters the ACD queue and begins holding until the time a tax examiner answers the call.

Baseline Performance Standards for Call Blockage and Wait Time Are Lacking

The Department made a Fiscal Year 2000 budget request for a total of 23 additional FTE through Fiscal Year 2003 (the first 5 FTE in Fiscal Year 2000) in order to achieve a 5 percent call blockage rate goal and a three-minute call time delay in Fiscal Year 2003. The Department also reported that, in Fiscal Years 1998 and 1999, call blockage averaged 40 percent and projected that number would increase to about 50 percent in Fiscal Year 2000.

The JBC requested an update of the Department's Fiscal Year 1999 strategic plan to address blockage and wait time goal attainment, and to support the budget request. Consistent with OSPB's requirement, the plan was to be outcome- and performance-based to drive changes in the budget, and to make a compelling case for requested increases, particularly for FTE.

Our review and analysis of the Department's requests, plans, documents, and performance measures found inconsistencies in reported baseline performance measures, such as conflicting call blockage estimates and variable wait time estimates reported in the Department's budget request and strategic plan for the same time period. Further, the goals reported in the Fiscal Year 2000 strategy submitted to the JBC do not coincide with the performance goals described in the previous year's strategy.

The Department's data collection methods do not give an accurate reflection of the call center's actual performance over time. We believe it is difficult to determine whether or not the Section needs 23 additional FTE to meet targeted goals. TPS lacks baseline performance standards from which they can measure achievement and determine human resource and technology needs.

Recommendation No. 12:

The Department should determine baseline standards for all call center performance goals and develop controls to ensure the accuracy of both internal data collection and external performance reporting.

Department of Revenue Response:

Agree. The Department will develop baseline standards to track against actual call center performance on an annual basis. The standards will be consistent with current FTE and funding levels. The baseline will begin with Fiscal Year 2001 and will measure progress annually.

Reportable Performance Measures Are Narrowly Defined

The Department reports two quantifiable and verifiable call center performance standards in their budget requests to the JBC:

- Level of Access (call blockage or busy signal)
- Wait time (speed of answer once a caller enters the ACD queue)

The customer complaints in these two areas totaled 67 percent, as noted on page 38. The remaining 33 percent of customer service complaints represent areas that are not quantified, verified, or reported on by the Section.

Level of Access, or the chance a caller will get a busy signal, is determined by adding the number of calls answered and the number of abandoned calls, and dividing that sum by the total number of call attempts. This is not the best measure of call center performance because abandoned calls are counted and reported as successful call attempts.

Our review of call center practices established that quality customer service, particularly Accuracy and Level of Service, are important and verifiable measures of call center performance.

- Accuracy is defined by the IRS as correct and complete tax law (technical) information provided to the taxpayer.

- Level of Service differs from Level of Access in that it measures the actual calls serviced by the call center. It is computed by dividing the number of calls answered by the number of total call attempts (the sum of calls answered, calls that are abandoned, and calls that receive a busy signal). This measure eliminates the problem of counting abandoned calls as successful call attempts.

The IRS established a baseline standard for accuracy by monitoring tax law information provided to taxpayers through their toll-free telephone assistance program. One of the IRS' performance goals is to achieve 85 percent accuracy in answering customer telephone inquiries. The agency reports three performance measures in budget requests, including the impact of phone agents on customer service:

- Number of calls answered
- Telephone Tax Law Accuracy Rate
- Telephone Level of Access

When California established and adopted new performance goals for their taxpayer call center in 1999, Accuracy and Level of Service were included in the strategic plan and evaluation criteria as quantifiable and verifiable standards of call center performance.

Colorado's TPS recognizes the importance that phone agents play in customer service by adopting a broad range of customer service goals, including:

- Providing statute, regulation, policy, and procedural information about taxes and functions administered by the Department of Revenue to a wide audience.

- Analyzing telephone customer accounts and preparing adjustments or transfers, and issuing refunds as warranted by conditions.

- Instructing and/or providing training to telephone customers on forms preparation to avoid future or additional processing problems.

- Monitoring agent calls for accuracy and attitude.

- Providing instruction to callers on Internet access and Department of Revenue online functions.

- Reviewing phone agent adjustments, transfers, and refunds.

However, TPS does not quantify or report attainment of these customer service goals. Consequently, the Department cannot address or measure progress toward solving 33 percent of customer complaints.

We believe that Accuracy and Level of Service, as quantifiable measures of customer service, should be included in the Department's performance standards for the TPS call center.

Recommendation No. 13:

The Department should establish a quantifiable baseline measure for both call center Accuracy and Level of Service, and report results internally and externally, particularly in support of budget requests.

Department of Revenue Response:

Agree. The Department will revise the measuring of both Accuracy and Level of Service provided to taxpayers via the telephone. Appropriate measures will be in place by December 31, 2000.

The Department's Quality Monitoring Instrument Could Be Improved

Tax Examiner I's are typically the least experienced staff at the call center. The Department reported that Tax Examiner I's answer about 1200 of the least complicated calls each month. They are monitored by Tax Examiner IIs, who use an "accuracy and courtesy checkmark" when they monitor to evaluate how a call is handled. The Department's monitoring records show that 96.5 percent of callers were provided completely accurate tax information from TPS phone agents, while 99.5 percent of callers were given acceptable customer service.

Complaint records from the Governor's Citizen Advocate Office (as noted on page 38) show that inaccurate tax law information generated 16 percent of complaints about the call center. Another 8.5 percent of complaints regarded discourteous service.

On the basis of our review of call monitoring policies and procedures at the call center and those of other governmental and private sector call centers, we found that the Department:

- Lacks necessary definitions of accuracy and courtesy measures.
- Establishes no formal criteria for lead workers to evaluate phone agent performance.

- Does not use a monitoring instrument that sufficiently addresses TPS objectives and the quality of work completed by a phone agent.
- Has no method for identifying training needs.

We interviewed three call center Tax Examiner II's and found each of them had a different method of determining a phone agent's level of accuracy and courtesy, and definition of those performance goals varied. Because of the inconsistency in monitoring methods, we believe the Department is limited in knowing whether individual or unitwide objectives are being met.

Call center industry standards establish that a quality monitoring instrument should address and evaluate customer service goals set forth by the organization. California's call center has established individual performance measures for each skillset and developed a monitoring instrument that speaks to those goals.

We think that the Department could increase call center customer service by setting forth protocol for monitoring, measuring, and quantifying the quality of information that phone agents provide.

Recommendation No. 14:

We think that the Department should establish methods for monitoring, measuring, and quantifying the quality of information that phone agents provide, including:

- Establishing definitions for accuracy and courtesy measures.
- Defining and implementing specific criteria for lead workers to evaluate phone agent performance.
- Developing a monitoring instrument that sufficiently addresses TPS objectives and the quality of work completed by a phone agent.
- Establishing a method for identifying training needs.

Department of Revenue Response:

Agree. The Department will establish methods for monitoring, measuring, and quantifying the quality of the information that phone agents provide to callers. The measures will be in place by December 31, 2000.

Quality Customer Service Is Enhanced When All Phone Agents Are Monitored Frequently

The IRS reported that monitoring phone agents allows the agency to optimize the number of calls it can answer within current budget restraints. Silent call monitoring techniques are used to assess quality and determine service improvement opportunities. Real-time service-level monitoring and predetermined evaluation procedures are considered vital to customer service delivery and customer access.

Our sample of the Department's phone agent performance monitoring shows that during a four-month period, 0.22 percent (less than one quarter of 1 percent) of TPS'calls were monitored. We found that:

- Fifteen Tax Examiner I's were monitored.
- No senior (Tax Examiner II's or higher) phone agents were monitored.
- A total number of 180 calls were monitored.
- Some Tax Examiner I's were monitored once, while others were monitored 40 times during the same period.

The Department has projected that phone agents will answer fewer calls in the coming years. Each phone agent answered an average of 18,688 calls in Fiscal Years 1998 and 1999 combined, while the Department reported that average will be 16,262 calls beginning in Fiscal Year 2000. Call volume is not expected to decrease. As a result, the budget request for additional FTE shows that the cost per call will increase from $1.88 per call in Fiscal Year 1999 to $2.16 per call in Fiscal Year 2001, even with five additional FTE.

Our review of call center benchmarks used by other governmental and private industry call centers shows that effective monitoring techniques should:

- Include a sample size for assessing quality that is based on a specified percentage of telephone calls monitored during the hours a call center answers calls. For example, the IRS' planned sample size for Fiscal Year 1999 was 8.5 percent of projected call volume.
- Include a sample of the various subject matters to be monitored during those hours (for example, Business Tax, Trade Name, Income Tax) and methods for meeting that sample plan.

- Require every call center phone agent who responds to tax law questions be monitored at least one time each week.

We believe that the information generated by quality assurance monitoring could be improved, cost per call stabilized, and customer service increased if the Department adopted industry standards for monitoring agents.

Recommendation No. 15:

The Department should improve telephone customer service and stabilize cost per call by:

- Determining a sample size for assessing quality that is based on a specified percentage of telephone calls monitored during the hours the call center answers calls.

- Including a sample of the various subject matters to be monitored during those hours (for example, Business Tax, Trade Name, Income Tax) and methods for meeting that sample plan.

- Requiring that every call center phone agent who responds to tax law questions be monitored at least one time each week.

Department of Revenue Response:

Agree. The Department will develop and implement a more specific monitoring program for the call center. The monitoring program will be implemented within the constraints of current technology, by December 31, 2000, and will be a consideration when seeking technology upgrades.

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