

Approved

Stephen R. Cloud 3-24-83
Date

MINUTES OF THE HOUSE COMMITTEE ON GOVERNMENTAL ORGANIZATION

The meeting was called to order by Rep. Stephen R. Cloud at
Chairperson

9:12 a.m. ~~xxx~~ on March 22, 19 83 in room 522-S of the Capitol.

All members were present except:

Committee staff present:

Carolyn Rampey - Research Dept.
Russ Mills - Research Dept.
Julian Efird - Research Dept.
Avis Swartzman - Revisor
Jackie Breymeyer - Secretary

Conferees appearing before the committee:

Jean Duncan - Kansas Real Estate Commission
Paul Flower - Kansas Real Estate Commission
Brian Moline - State Corporation Commission
Michael Lennen - Secretary, Dept. of Revenue
Alan Alderson, General Counsel - Dept. of Revenue

The meeting was called to order by Chairman Cloud at 9:12 a.m.
The minutes of March 15 were approved. The Committee took up HCR 5037.

Jean Duncan, Kansas Real Estate Commission, explained the bill.
Paul, Flower, Kansas Real Estate Commission answered questions from the
Committee with regard to subsection (j) on page 4. As there were no other
conferees, Chairman Cloud stated that this constituted the hearing on HCR 5037.

The Committee turned to SB 42, the bill that would continue the State
Corporation Commission in existence. Brian Moline, State Corporation Commission,
give a brief overview of the bill and also spoke of the mined land program and
what the federal government would like to see in regard to the number of people
in the program. He told of a news article in the Kansas City paper on Sunday,
March 20, which had drawn a response from a number of people. He sees this as
a philosophical problem between the federal and state government. Mr. Moline
acknowledged receipt of a letter from Chairman Cloud to Mr. Loux, Chairman of
the Corporation Commission, requesting him to respond by January 15, 1984, with
what steps have been taken to respond to these recommendations. After several
questions and comments from Committee members, the Chairman stated that this
constituted the hearing on SB 42.

The Committee continued with a hearing on SB 43, the bill that continues
the Department of Revenue and Secretary in existence. Michael Lennen, Secretary,
Department of Revenue, distributed copies of his testimony to Committee members
and focused his testimony on actions taken by the Department to improve service
and efficiency. Mr. Lennen stated that the Department has four operating divisions
and nine secretariat staff bureaus. Mr. Lennen gave a page-by-page review of the
Department while the Committee followed along with his testimony. (See Attachment)

Mr. Lennen ended his testimony by urging the Committee's favorable recommendation
for SB 43.

Alan Alderson, General Counsel, Dept. of Revenue, added several comments and
spoke of auto insurance and penalties for lapse of the same. He told of the
different penalties of accident and non-accident lapse. Chairman Cloud told
the Committee that the Subcommittee Report regarding this would be given tomorrow
and requested either Mr. Lennen or Mr. Alderson to be present to answer questions.
This constituted the hearing on SB 43.

The meeting was adjourned at 10:15 a.m.

Mr. (Chairman, Members of the Committee:

Thank you for the opportunity to appear this morning in support of the proposition that the Department of Revenue and the office of the secretary should be continued in existence until July 1, 1991, as contemplated by Senate Bill 43.

My remarks will focus on actions that have been taken by the Department to improve the quality of its services and its efficiency. I would also want to direct comments to initiatives that are now underway, or that are proposed, which should further serve to increase the Department's operating effectiveness as a collection, enforcement and regulatory agency.

K.S.A. 74-7239 provides that the burden of showing continued public need rests with the agency. At the outset, therefore, I would note that in fiscal year 1982, the Department collected gross receipts exceeding \$1.5 billion of which \$1.15 billion was deposited in the state general fund. Absent such collection activity, essential functions of state and local government could not have been funded.

In addition to collecting taxes, the Department is responsible for such enforcement, compliance and regulatory activities as issuing drivers' licenses and vehicle registrations, weighing motor carriers, maintaining an orderly market for distribution and sale of alcoholic beverages, and exercising general supervisory responsibility over the state's property tax laws.

The Department is organized into four operating divisions and nine secretariat staff bureaus. The divisions are Taxation, Alcoholic Beverage Control, Property Valuation and Vehicles. The secretariat staff bureaus provide centralized functional services such as data processing, field enforcement, budget preparation, inventory control and personnel management. The Division Directors and Secretariat Bureau Chiefs report to the office of the secretary.

In the sunset audit of the Division of Taxation, the post auditor identified estimated benefits in the amount of \$4 million that might be realized by implementing post audit recommendations. I would draw the committee's attention to the fact that \$3.3 million of such estimated savings are attributable to a single action; namely, requiring more frequent remittances of withholding taxes. With the recent passage of Senate Bills 35 and 36 requiring accelerated collections of withholding tax and sales tax, the substance of that recommendation is now being implemented. Development of a computerized process for identification and periodic review of appropriate payment cycles for sales and withholding accounts, as recommended by the post auditor, is also being accomplished in conjunction with the accelerated collections effort.

The Department has recognized, as did the post auditor, that many of the current data processing systems are inefficient and do not provide necessary control or flexibility. Neither do they adequately meet the Department's operational and management needs.

Business taxes, for example, are currently processed under systems developed in the 1960's and early 1970's. Computer technology and design concepts inherent in such systems are badly outdated.

In large part this condition evolved as the state's business tax systems were developed independently with little consideration given to consolidation or integration.

To address this problem, the Department in 1980 assigned seven high level staff members, with the assistance of IBM Corporation, to the task of establishing a systems information plan for the Department.

The plan was finalized in June 1980. It represents the foundation upon which the Department will meet its statutory responsibilities throughout the 1980's.

As one product of the information system plan, the Department identified its highest systems priority: the development and implementation of an integrated

tax system.

With legislative authorization, the Department began the development of a conceptual design and data model for the Kansas Business Integrated Tax System (K-BITS) in FY 1981. In FY 1982, both the general and detailed design was begun. This phase will be completed by the end of FY 1983.

It is anticipated that the final phase--programming, testing, and implementation--will commence in July, 1983, and be completed in approximately 15 months.

When implemented K-BITS will meet the following objectives:

1. Consolidate the accounts receivable system.
2. Improve the delinquency control for business taxes.
3. Improve management control of the business tax systems.
4. Integrate the business tax registration process.
5. Create systems that are flexible and responsive to change.
6. Minimize processing problems in data entry, data storage, and data retrieval.
7. Improve the Department's financial controls.
8. Reduce data redundancy and increase data sharing.
9. Maximize the use of computer applications to reduce manual processing efforts.
10. Improve the Department's tax audit capability.

A second major systems development effort which should significantly improve the Department's vehicle title and registration processing is currently underway.

The major functions of the Division of Vehicle's Title and Registration Bureau, under the Motor Vehicle Act, are basically the same today as they were in 1961 but involve a multitude of small changes. These functions are accurately collecting, reporting, and depositing motor vehicle related fees, registering and reregistering vehicles, titling vehicles, securing mortgage interests in

vehicles, and making available vehicle information to law enforcement agencies.

Several objectives have been established for the new Vehicle Information Processing System. First, the new system will be designed to improve operating efficiency and minimize costs by freeing clerical workers from large volumes of routine record checking. Time saved by electronic error detection will be used to correct errors and reduce backlogs in processing information. The new system will improve information usage by providing additional vehicle data for planning and service reports. VIPS will also provide a potential direct communications link with county tag offices across the state.

The current computer system developed in 1961 was designed in an era of punch-card technology. The Division of Vehicles became a part of the Department of Revenue under a Legislative Reorganization Plan in 1972. Since that time the Kansas vehicle population has doubled in size. Computer programs have been patched and repatched to accommodate numerous statutory changes and maintain an additional 1.2 million records. The Department of Revenue has not had sufficient staff with adequate expertise to undertake a major revamping of this antiquated system.

Many of the major programs are unstructured and employ primitive processing techniques. Unstructured code increases the training time for the new programmers and analysts. The existence of 12 files and 150 programs renders the system prone to programming error. These programs are also tedious to test and difficult to modify for compliance with the many legislative changes.

Other deficiencies in the current computerized system include: the excessive need for manual edits; the inability to track down applications once they are received and placed into the work flow; the inability to verify computer update accuracy; an inability to make corrections to files without involvement of considerable staff resources; the paucity of management information reports to predict trends, project revenue estimates or exercise timely management control.

The Department is currently completing the requirements definition for VIPS utilizing its own resources. Full implementation of the VIPS project will extend over four fiscal years. FY 1983 involves completion of the systems requirement definition phase. For FY 1984 the systems design alternatives and external specifications are scheduled for completion. FY 1985 will involve internal specifications and program development. The final phase of the project is scheduled for FY 1986 with full conversion and implementation of the new system.

Notwithstanding the difficulty in maintaining and modifying many of the Department's major processing systems and the continuing need for comprehensive, long-term systems development efforts, a number of significant processing improvements have been made in recent years. That this has been possible is attributable in large part to the Legislature's decision to provide a major upgrade in data processing hardware and software support through the Division of Information Systems and Computing. A sample of Department accomplishments include:

Fiscal Year 1980

1. The motor fuel system was modified to provide processing for gasahol.
2. Several systems were modified to specifically identify high tax documents to permit faster depositing. The Department now has implemented accelerated deposit procedures for all major tax remittances resulting in at least \$900,000 in additional interest earnings for the state.
3. A system was developed in which all wage information supplied by employers on computer tape is standarized to one format and placed on microfiche.
4. The Alcoholic Beverage Control price book system was revised to support the franchise structure enacted by the Legislature.
5. The driver licens> system was rewritten using a data base support concept which reduced storage space, improved efficiency and reduced

processing time. This was the first major improvement in that system in more than 15 years.

Fiscal Year 1981

1. The motor vehicle registration renewal printing system was modified to produce renewals in zip order to save postage costs and to provide for staggered registrations for certain vehicles as required by the Legislature.
2. The driver license control subsystem was modified to automatically produce warning notices to drivers who committed more than a specified number of violations and also automatically produce requests for certification of liability insurance.
3. A new motor carrier violation system was created to record weight violations by motor carriers operating in Kansas.
4. A new motor vehicle interstate registration system was established to support the new international agreement signed by Kansas.

Fiscal Year 1982

1. The income tax refund system was modified to produce refunds in zip order to save postage cost. The current estimate of postage savings resulting from presorting mail by carrier route exceeds \$100,000 annually.
2. Systems were developed to perform an analysis of accounts receivable for individual income tax, sales tax, and withholding tax. These reports are for management so closer control of collection activities can be exercised.
3. The individual income tax enforcement system was revised to identify addresses to which more than one tax refund was sent for investigation of possible fraudulent filing.
4. The old inheritance tax system was revised to provide and retain more data than previously captured and more statistical reports were created

- to support the new inheritance tax law.
5. The vehicle registration system was expanded to support staggered registration for certain trucks.
 6. New withholding tax tables, made necessary by the new federal income and withholding tax changes, were created.
 7. The major part of conversion of operations from the UNIVAC Spectra 70 Computer System to the IBM Computer complex was completed. This required rewriting some 600 on-line and batch programs.

Outside the data processing area, the Department has established a program for the systematic use of telephones for collecting outstanding liabilities, resulting in an annual travel reduction of 300,000 miles and savings of \$66,000.

Numerous other management and organizational changes have been made in order to improve the Department's quality of public service.

As a major new initiative this year, the Department is recommending the commencement of a program called Project Fair Share. Funding to begin the project has been recommended by the House Ways and Means Committee. The key feature of this system is the identification of those individuals who do not file tax returns or who significantly under-report earnings in determining their Kansas income tax liability. Follow-up measures, will involve the assessment and collection of the tax.

The Department currently has few standardized methods for identifying and collecting money from non-filers and those who under-report income. Most of its resources are devoted to processing returns and auditing those persons and corporations who are not intentionally attempting to evade tax. Special programs have been initiated on an ad hoc basis when a particular problem involving tax evasion was identified and resources were available, but seldom have such tax evasion efforts constituted an ongoing activity.

An exception to this approach has been the Department's utilization of the federal/state compare program. The federal/state compare program is a cooperative

effort between the federal and state governments in which state governments acquire a computer tape that contains information concerning filers of federal returns. The program involves running this tape against a similar tape of state filers so that Kansas residents who file federal returns but not state returns are flagged for follow-up to determine the reason no return was filed. Sometimes there are legitimate reasons for a state return not being filed. Once it is determined there is not a legitimate reason for non-filing, or if questions are raised in this regard, manual follow-up actions are taken to pursue the cases identified.

Use of the federal/state compare program involves heavy use of both the computer and personnel. Computer resources must be devoted to running the program and personnel must be assigned to auditing the flagged returns and for subsequent follow-up. Currently, the Department runs the federal/state compare program once every two years. This procedure determines whether a person with a Kansas address who files a federal return also files a Kansas return.

The specific projects to be undertaken in FY 1984 include the following:

1. Federal/State compare enhancements, consisting of running the comparison on an annual basis, lowering the tolerance limits for a comparison to approximately \$6,000 and extending the comparison to include audit of income levels reported, as well as exemptions, deductions and credits taken.
2. Income tax comparison of tapes listing people who have been issued personalized license plates to ensure they have filed an income tax return.
3. Income tax comparison of selected licensed professional and other groups to ensure they have filed.
4. Income tax comparison of businesses that have applied for an occupation license through the Secretary of State to ensure all such firms have filed income tax returns in Kansas.
5. Screening property tax cards at selected county treasurers' offices to

identify out-of-state owners of land or other income producing property in Kansas to ensure owners have reported income from any such land or property; and

6. Initiating a public information effort in conjunction with enhanced compliance on the part of non-filers.

The Department is also seeking authority to refer out-of-state problem accounts to private sector collection agencies.

I would conclude, Mr. Chairman, by expressing appreciation to the Committee for the courtesy you have extended and urging your favorable recommendation of S. B. 43.

Michael Lennen
Secretary of Revenue

March 22, 1983

House Governmental Organization