

Approved 2-6-89
Date

MINUTES OF THE SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION

The meeting was called to order by Senator Lana Oleen at
Chairperson

1:30 a.m./~~XX~~ on January 31, 1989 in room 531-N of the Capitol.

All members were present except: Senator Gaines
Senator Vidricksen - excused

Committee staff present: Julian Efird - Research
Jill Wolters - Revisor
Nancy Jones - Secretary

Conferees appearing before the committee:

Barb Hinton - Legislative Post Audit Staff
Cindy Lash - Legislative Post Audit Staff

Chairman Oleen extended thanks to the Department of Revenue for the informative tour conducted on January 30.

A motion was made to approve the minutes of the January 23 and 24 meetings by Senator Bogina; seconded by Senator Francisco. Motion carried.

Barb Hinton presented a summary of the audit of the Department of Revenue Division of Taxation, which focused on three areas: Identifying and Registering Businesses, Managing Tax Remittance Cycles and Following up on Delinquent Accounts. The auditors found all businesses needing to register are not being located and available records from other agencies could be used for this purpose. The State Tax Law needs to require more frequent filing of withholding taxes to parallel filing provisions of the Retailers' Sales Tax Act, thus generating additional interest revenues. Management of Sales Tax accounts' filing cycles is inadequate and needs to be updated. Specific problems found regarding delinquent accounts were identification of delinquents, lenient enforcement of filing deadlines and delayed enforcement of the regulations. These all need attention to develop a cost effective process. Audit recommendations were made regarding needless delays in issuing warrants, preparing injunctions and ineffective bond practices. (Attachment 1)

A brief outline was presented on concerns raised regarding implementation of the Kansas Business Integrated Tax System (KBITS) and Collections on Closed Sales Tax Accounts. (Attachment 2&3)

Cindy Lash stated an audit of the Department of Revenues' New Computer Systems was made to determine if CAMA and VIPS are working as intended and whether Department operations are more efficient as a result of VIPS. A survey of county appraisers indicated the system is working but is difficult to learn. Implementation costs exceeded projections due to overpurchasing of hardware by the various counties which computerized additional county operations. There have been continued problems with contractors receiving full fees even though consultations were inadequate and contracts not fulfilled. Original estimated cost of VIPS was \$2.7 million and estimated cost today if \$10.9 million. Delays in acquisition of hardware and change to IBM System 36 Mini-computers are factors which increased costs.

Recommendations were made to the Department to consider updating vehicle registration records close to the first day of the month and to develop a project accounting system for each new project. (Attachment 4)

Committee members discussed problems relating to contractors and details of computer operation costs.

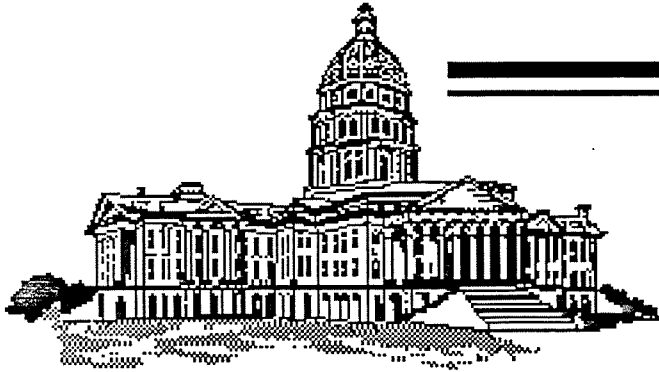
Meeting was adjourned. The next meeting is February 6, 1989.

GUEST LIST

COMMITTEE: SENATE GOVERNMENTAL ORGANIZATION

DATE 1-31-89

NAME	COMPANY / ORGANIZATION	ADDRESS
Ned Heurman	KDOR	Topeka
Steven Brunson	KDOR	Topeka
Donald Hein	Univisys	Topeka
Susan K. Kluff	Revenue	DSOB
Barb Hinton	Post Audit	Mills
Cindy Lash	"	"
Sheri Holliday	Budget	Topeka
Mick Kramer	KDOR	Topeka



PERFORMANCE AUDIT REPORT

DEPARTMENT OF REVENUE DIVISION OF TAXATION

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
September 1982

S.G.O.
1-31-89
Attach-1

FOREWORD

As of the end of fiscal year 1982, more than \$16.9 million in sales and withholding tax revenues paid by Kansas citizens had not yet been remitted to the State by businesses that collected the taxes. With such a large amount in outstanding debts from sales and withholding tax collections, it is important that the Department of Revenue maintain an effective system for collecting those amounts and enforcing the law so that additional debts are not allowed to accumulate. Recent concerns over the State's fiscal affairs place even greater importance on ensuring that the Department collects all taxes due the State and that these revenues are managed in a cost-effective manner.

This audit of the Department of Revenue's Division of Taxation was conducted as part of the sunset performance audit of the Department. It focuses on the administration and enforcement of sales and withholding taxes, which accounted for more than half of the approximately \$1.35 billion in gross revenues administered by the Division in fiscal year 1981. The Division's effectiveness in administering these taxes was examined in three areas: identifying and registering firms that are required to remit taxes, managing their accounts and periodically updating their filing cycles to ensure that returns are filed according to the schedules called for in the law, and following up and applying penalties on firms not remitting taxes or not filing timely and accurate returns.

The audit concludes that a number of improvements are needed in all three areas examined. It makes a number of recommendations addressing a variety of concerns. However, several common denominators run throughout. Most recommendations call for using resources or laws already available to improve or strengthen management practices, to comply with current laws, and to carry out functions on a more timely basis.

The report recommended improvements that could reap significant benefits. The auditors estimated that at least \$4 million a year could be saved from just the few improvements that could be assigned an immediate dollar value. For example, a recommendation to amend the law to provide for more frequent filing periods for withholding tax remittances could increase cash flow and subsequent interest earnings by as much as \$3.3 million a year. The auditors also found several instances in which enforcing existing laws could avoid dollar losses. For example, the audit recommends that the Department stop its unauthorized practices of giving blanket extensions for filing retailers' sales and withholding tax returns. Such extensions are not allowed by law and cost the State about \$233,000 in foregone interest earnings.


The audit also includes a number of other recommendations with equally important, but less quantifiable, benefits. For example, the audit recommends strengthening the Department's bonding policy to require bonds of all sales and withholding tax accounts at the time of registration and to require an additional bond on "high-risk" accounts. Such a policy could help protect the State from potential losses from delinquent taxes. In addition, the Department's overall collection capabilities would be strengthened because it would not need to rely as much on certain other collection tools, such as warrants, which may not always be effective in collecting delinquent taxes. These and other recommendations to strengthen enforcement of the law could also provide more incentives for businesses to remit taxes on time. Over time, the benefits of more aggressive enforcement and strengthened collection capabilities will be realized in terms of lower tax delinquency rates, improved cash flow, and lower total costs for delinquency follow-up.

Recommendations are made in a number of other areas, including one to use authority already provided in State law to prosecute businesses that continue to make sales after their sales tax registrations are revoked. Such a stringent measure seems warranted because businesses not only are operating in violation of the law, but they also have converted to their own use tax dollars already paid by Kansas citizens.

Taken together, all the report's recommendations--if implemented--could help ensure that the State receives taxes due, is adequately protected from losses from delinquent taxes, and earns all the interest it can on tax revenues.

All the report's recommendations, together with a brief description of the audit's major findings, are presented in the summary that follows this foreword. The Department of Revenue's response to the draft report disagreed with most of the report's recommendations and in some instances questioned the report's accuracy. Legislative Post Audit carefully reviewed all areas of disagreement. This review resulted in a few minor additions and adjustments to the report's text. However, none of these adjustments resulted in changes to the thrust of the report or its recommendations.

Legislative Post Audit appreciates the courtesy and cooperation extended to the auditors throughout the audit by officials of the Department of Revenue. The manager of this audit was Leo Hafner and he was assisted by team members Judith A. Adkison, Roy J. Fitzpatrick, Catherine J. Kutka, and Paula A. (Pam) Michaels. Assistance was also provided by other members of the staff.


RICHARD E. BROWN
Legislative Post Auditor

Summary of Matters for Legislative Attention

Audit Findings and Conclusions

This audit of the Department of Revenue's Division of Taxation was conducted in conjunction with the Kansas Sunset Law, which abolishes the Department on July 1, 1983, unless it is continued by an act of the Legislature. Audits are also being conducted of the Division of Alcoholic Beverage Control and the Division of Vehicles.

The audit focused on the Department's administration and enforcement of retailers' sales taxes and withholding taxes because these taxes accounted for approximately 54 percent of the revenues administered by the Division. The audit examined the Department's effectiveness in three areas: identifying and registering firms that are required to remit taxes, managing the accounts and periodically updating their filing cycles to ensure that returns are filed according to the schedules called for in the law, and following up and applying penalties on firms not remitting taxes or not filing timely and accurate returns.

To help assess the Department's performance in each of these areas, the auditors reviewed the activities of various sections within the Division and of related service bureaus in the Department, and assembled cost information on the various steps involved in processing delinquent tax accounts. The Division of Taxation's methods for locating non-filers and those owing additional taxes were reviewed to determine if they were efficient and effective. Finally, a sample of case files for businesses whose December 1980 sales and withholding tax returns were processed after the delinquency cut-off date were reviewed to determine if proper delinquency follow-up procedures had been applied to those accounts.

The following summary describes the auditors' findings in each of the three areas examined, as well as the impacts of those findings on the State's tax revenues and interest earnings.

Identifying and Registering Businesses

Businesses required by law to remit sales and withholding taxes must register with the Department of Revenue. However, the Department's Field and Audit Services Bureaus attempt to locate firms that have not

voluntarily registered. To assess the Department's effectiveness in locating businesses required to remit withholding and sales taxes, the auditors used a computer to match withholding and sales tax records at the Department of Revenue with the business records at the Department of Human Resources.

The auditors found that the Department has not been locating all businesses that are required to register. Through discussions with Department personnel, the auditors learned that the Department relies principally on its own resources and on voluntary registration by businesses to identify new accounts. The auditors' testwork has shown that using the records available at other agencies, such as the Department of Human Resources, could help locate firms that need to register.

Managing Tax Remittance Cycles

The second element of an effective enforcement program involves managing the taxpayers' accounts to ensure returns are submitted according to schedules that comply with the law and are cost-effective for the State to process. The auditors found that improvements could be made regarding withholding and sales taxes.

Amending withholding tax laws. The State lost an estimated \$3.3 million in interest income in fiscal year 1981 because the State's withholding tax law does not require more frequent filing of withholding taxes, based on the amount of tax remitted (withholding tax returns representing annual liabilities of more than \$200 are required to be filed each calendar quarter). The auditors' estimate was based on the additional interest revenues that would have been generated if the withholding tax law more closely paralleled the filing provisions of the Retailers' Sales Tax Act--that is, provide for monthly, quarterly, or annual filing, depending on the amounts of taxes remitted.

Updating sales tax accounts' remittance cycles. The auditors' review revealed that in 1981, about 38 percent of all active sales tax accounts were filing more frequently than necessary and about 3 percent appeared to be filing less frequently than required by law. Both situations occurred because the Department makes no concerted effort on a regular basis to determine whether sales tax accounts are set up on the proper payment cycle. Instead, the Department depends primarily on voluntary status changes by the firms, or on catching such accounts during normal processing. In short, the accounts are not routinely updated.

Inadequate management of accounts' filing cycles impacts on both the State and the businesses. If the returns are filed more often than necessary, the State and the businesses filing the returns incur losses from handling unnecessary paperwork. Conversely, if accounts are not filed as

often as the law requires, the retailers violate the law. Further, the State loses interest earnings because the State Treasury did not receive the sales tax money as soon as it should have. The auditors estimated that foregone interest and excess handling costs total more than \$130,000 each year because returns are submitted too frequently or not often enough.

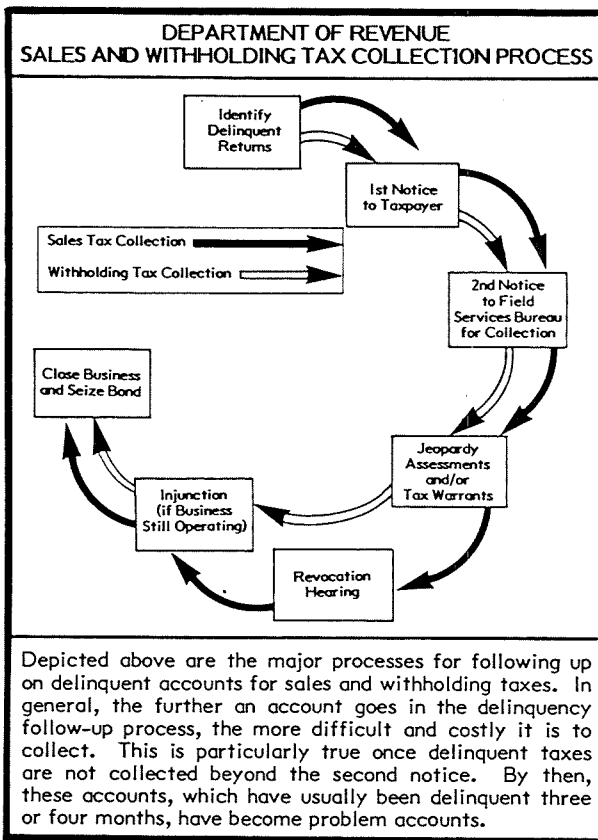
3 over **Following Up on Delinquent Accounts**

The next element of effective enforcement involves the collection of the proper amount of tax on a timely basis and following up on accounts that are delinquent in remitting their taxes. The auditors found a number of problems in identifying delinquent accounts and in collecting on delinquent accounts later on in the follow-up process. The specific problems found with the Department's follow-up procedures and their impacts are summarized below.

Improving the identification of delinquent accounts. The first step in following up on a delinquent accounts requires that the Department identify who is delinquent in remitting the taxes and that it assess penalties and interest in those cases as prescribed by law. The auditors found the following problems with regard to determining delinquency:

- Lenient enforcement of filing deadlines.** The Department granted blanket extensions of deadlines for filing retailers' sales and withholding tax returns during fiscal year 1981, even though there is no statutory provision for this practice. Such blanket extensions caused the State to forego an undeterminable amount of penalty during the fiscal year. In addition, such extensions have slowed the State's cash flow from retailers' sales and withholding tax collections, resulting in about \$233,000 in foregone interest for fiscal year 1981.
- Delayed enforcement of regulations on time extensions.** The Department delayed for more than two years implementation of regulations governing time extensions for filing returns. As a result, the State lost more than \$123,000 in potential interest revenues (the one-half of one percent on taxes owed for each month the filing deadline is extended). In addition, the interest rate applied to these accounts receiving time extensions for filing sales tax returns under K.A.R. 92-19-33 is not consistent with the interest rates prescribed in other statutes regarding late filing of taxes.

Improving the handling of problem accounts. If delinquent taxes are not collected after first and second delinquency notices, the account is referred back to the Division of Taxation for further action. By now, this account, which has been delinquent three or more months, has become a problem account. Although the auditors found no problems with the Department's issuing first and second notices of delinquency, the audit addresses a number of concerns related to the actions taken on problem accounts.



Once an account has become a problem, the actions taken by the Department appear to be less structured and have less stringent time frames for completion. At this point, the Division is given more discretion in both the areas of sales and withholding tax collections. The accompanying figure shows the major processes for following up on delinquent accounts.

The auditors found that in many cases these processes were not instituted on a timely basis and were not used in accordance with statutory mandates. Specifically, the auditors found the following problems with the Department's enforcement of problem accounts:

- Delays in issuing jeopardy assessments.** The auditors noted that sales tax jeopardy assessments are not always made immediately after the taxpayer fails to file returns after notice from the Director and either terminates business operations or continues the act of making retail sales.
- Abatement of jeopardy assessments.** The current use of jeopardy assessments by the Department does not appear to be effective as an incentive for businesses to file tax returns.
- Delays in issuing warrants.** The auditors found that warrants for the collection of delinquent withholding taxes were not being filed as soon as required by law.
- Lax enforcement of revocations.** The auditors found that the Department lacked uniform, objective criteria for determining when certain businesses sales tax registrations should be revoked. The auditors also found instances in which businesses continued to operate after their sales tax registrations had been revoked--flagrantly violating the law. Although State law gives the State authority to impose fines for such violations, this authority is not being used. Considering that

these businesses have converted tax dollars already paid by Kansas citizens, such stringent measures would seem warranted.

- Delays in preparing injunctions.** In reviewing the injunction process, the auditors found timeliness problems regarding both sales and withholding taxes.
- Ineffective bond policy and practices.** The auditors' review of bonding sales and withholding tax accounts shows that current policies do not appear to be effective. Bonds generally are not sought for withholding tax accounts. Many of the bonds that were posted for sales tax accounts did not cover the liabilities accumulated during the lengthy collection follow-up process. Further, bond amounts apparently were not updated to reflect business' increases in tax liabilities.

Audit Recommendations and Agency Responses

The draft report was sent to the Department of Revenue for review. This procedure is followed in the preparation of all audit reports. It gives the agency an opportunity to point out any errors of fact, to provide additional information, and to respond to the recommendations. The full text of the Department's response can be found in Appendix C. The following is a list of the recommendations, a summary of the Department's responses to them, and Legislative Post Audit's replies.

Improving Identification of Businesses Required to Remit Taxes

To aid identification of businesses required to remit sales and withholding taxes:

1. The Department of Revenue and the Department of Human Resources should execute an interagency agreement whereby each agency makes its records available to the other.
2. To accomplish this agreement, the Legislature should consider introducing legislation amending K.S.A. 74-2424 to allow the Department of Human Resources access to information at the Department of Revenue.

Agency response. The Department responded that it was completing a computer systems design that would use the Federal Employer Identification Number. This number could be utilized in a cross-check with Human Resources' files, which retain that identification number. The Department also said that the apparent noncompliance identified by the auditors

represents a somewhat smaller percentage than what might be concluded from initial reading of the tables presenting the audit findings.

Legislative Post Audit points out that the percentages appearing in the tables are correct. They represent the portion of the sample found to be in violation, not a percentage of active accounts.

Amending Withholding Tax Laws

The Legislature should consider amending K.S.A. 79-3298 to provide for filing withholding tax returns monthly, quarterly, and annually, depending on the amounts of taxes remitted.

Agency response. The Department indicated agreement with the recommendation, but added that the audit did not mention that the 1982 Legislature passed a law that would allow employers withholding less than \$200 a year to file annually rather than quarterly.

Legislative Post Audit has changed the draft report to include information on this statutory amendment. However, the recommendation has not changed because the amendment does not address the larger issues of the audit recommendation--improving cash flow and increasing interest earnings.

Updating Sales Tax Accounts' Remittance Cycles

To ensure that sales tax accounts are filed in a cost-effective manner and as required by law, the Department of Revenue should:

1. Periodically review retailers' sales tax accounts to ensure that accounts are placed on a payment cycle that coincides with K.S.A. 1981 Supp. 79-3607 and that maximizes revenue for the State. In implementing this recommendation, the Department should consider using its computer to:
 - a. Generate notices to retailers if their filing status has changed or if limits are exceeded for filing quarterly or annually.
 - b. Generate lists of status changes to Division personnel for updating accounts' filing status.
2. Identify and assess penalty and interest on those sales tax accounts not filing as frequently as required by law.

Agency response. The Department responded that the recommended review is similar to what is already a part of a computer system now being developed that would have the capability of periodically reviewing taxpayer records to identify the relationship of average liability and filing status. It noted, however, that the Department does not intend to seek a change in taxpayer filing status each time a return is filed because, given the impact of seasonal changes on retailers' liabilities, seeking such frequent adjustments in taxpayer filing status would be costly for the State and would harass the taxpayer. Finally, the Department said that the report "erroneously assumes the Department may unilaterally change a taxpayer's filing status to provide for less frequent filing," noting that K.S.A. 1981 Supp. 79-3607 provides that initiative for changing filing status must come from the taxpayer with the subsequent approval of the Director.

Legislative Post Audit points out that the audit does not recommend that the Department change a taxpayer's filing status each time a return is filed. The auditors' intent was that the accumulated liability be checked by computer each time a return is filed and that the status be changed only when the taxpayer has exceeded the specifications of law with regard to filing frequency. Adjustments could be made for taxpayers with a seasonal filing status.

Legislative Post Audit also finds no specific reference in K.S.A. 1981 Supp. 79-3607 specifying that only the taxpayer can initiate a change in filing frequency. The statutory language appears to indicate that the Director has final approval of filing periods as long as the schedules do not violate statutory dollar limits.

Enforcing Filing Deadlines

The Department of Revenue should enforce the filing deadlines for retailers' sales tax and withholding tax as outlined in K.S.A. 1981 Supp. 79-3607 and K.S.A. 79-3298. Extensions of time for filing returns should only be granted when the taxpayer has requested such an extension, has posted a bond, and has agreed to pay interest during the extended filing period, as required by Kansas administrative regulations.

Agency response. The Department of Revenue said it does not agree with the recommendation and gave four reasons for retaining the grace period. First, the Department said it lacked the personnel needed to separately examine each envelope for a postmark date. Second, ceasing the grace periods would conflict with the Department's accelerated deposit procedure and the State would lose the interest earned from the accelerated deposit of sales and withholding taxes, which was approximately

\$900,000 in fiscal year 1981. Third, the Department said that, in many cases, postmarks are illegible or do not appear on envelopes. Finally, the Department said that the majority of states recognize that the postmark identification method of determining delinquencies is inefficient and would slow processing of returns and remittances. In making this point, the Department encouraged Legislative Post Audit to review processing procedures utilized by private sector recipients of high volumes of mail to determine whether receipt date or postmark date is the more efficient method of determining delinquencies. It concluded that it would develop an annual review of grace periods with the intent of constricting the number of grace days based on analysis of holidays, weekends, and statutorily defined filing dates.

Legislative Post Audit disagrees that complying with filing deadlines will destroy the benefits of accelerated deposit. The checks can be processed for accelerated deposit regardless of when the return is declared delinquent. Regarding the Department's reference to the practices of private sector recipients of high volumes of mail, these entities are not under statutory mandates and can determine timeliness according to postmark or receipt date, depending on preferred business practice. Regardless of the reasons for extending filing deadlines, there is no statutory authority for such extensions. As long as the Department continues to grant such extensions, K.S.A. 1981 Supp. 79-3607 and K.S.A. 79-3298 will be violated.

Ensuring Interest Rates in Regulations Correspond to Those Given in State Law

The Department of Revenue should take the action necessary to ensure that interest rates for sales taxes in Kansas administrative regulations correspond to similar interest rates given in Kansas laws.

Agency response. The Department said it concurs in the recommendation, pointing out that the statutory interest rate prevails.

Enforcing Regulations on a More Timely Basis

To ensure that the Department of Revenue applies all actions available to it in enforcing the State's tax laws, the Department should enforce administrative regulations in a more timely manner after such regulations are approved.

Agency response. The Department did not directly respond to the recommendation that it enforce regulations in a more timely manner, but said it is presently enforcing the regulation pertaining to the audit findings.

Assessing Timely Penalties as Required by Law

To comply with K.S.A. 1981 Supp. 79-3223, the Department of Revenue should determine the tax due and assess a 50 percent penalty when a taxpayer fails to file a withholding tax return within 20 days of notice by the Director.

Agency response. The response stated a number of points. First, the Department said that its position is that K.S.A. 1981 Supp. 79-3223(c), which authorizes the 50 percent penalty is not mandatory, but merely directory only. It further noted that such provisions provide the authority to act and do not dictate strict compliance. Second, the Department said that attempting collection of the tax with a 50 percent penalty added would likely reduce the collection rate. Third, the Department said that applying a 50 percent penalty at such an early point in the delinquency period would be inconsistent with provisions of similar laws, which apply the 50 percent penalty only to fraudulent returns. Fourth, the Department said that it disagrees with the recommendation both legally and philosophically, and that it disagrees with the findings that 11 of 50 delinquent tax accounts were incorrectly assessed a 25 percent penalty. It said the Director of Taxation has complete discretion under the statute to determine when or whether to issue the notice that triggers the 20-day period and that it is incorrect to assume that a first notice of delinquency would trigger a 50 percent penalty. The Department concluded that principles of equity and due process would dictate that the taxpayer be advised of such a severe penalty prior to its imposition.

Legislative Post Audit disagrees with the Department's interpretation of the statute and also notes that the fact that other statutes apply a 50 percent penalty only in cases of fraud has no bearing in this case. If the Legislature had intended this penalty only for fraudulent cases, it would have stipulated this in the law as it did in the other statutes mentioned in the Department's response. Legislative Post Audit also stands behind the report finding that 11 of 50 delinquent withholding tax accounts were incorrectly assessed a 25 percent penalty. However, Legislative Post Audit does agree that the Director of Taxation has complete discretion under the statute to determine when or whether to issue the notice that triggers the 20-day period. The fact is that in the 11 cases mentioned, a notice was issued by the Director.

Establishing Minimum Penalties

To ensure that handling costs are recouped for all businesses that fail to file returns on time, the Legislature should consider amending K.S.A. 79-3615 and K.S.A. 1981 Supp. 79-3228 to provide for a minimum penalty for businesses delinquent in filing sales and withholding taxes. This penalty would also be applied to delinquent returns that owe no tax.

Agency response. The Department said it concurs in this recommendation. It also said that it had introduced legislation during the 1980 Legislature that would have imposed a minimum penalty for failure to file, but it did not pass.

Dating Returns When They Are Received

To provide a better basis for assessing penalties and interest on delinquent returns and to provide a better basis for determining--after processing--whether a return was timely or not, the Department should establish a procedure for indicating the postmark date on returns.

Agency response. The Department again said that developing an enforcement program based on postmark date would not be cost-justified. It added that the incidence of taxpayer challenges regarding whether they are delinquent are too rare to warrant such a procedure.

Legislative Post Audit disagrees that developing an enforcement program based on postmark date would not be cost-justified. (See response and reply under the recommendation on Enforcing Filing Deadlines.)

Issuing Jeopardy Assessments on a Timely Basis

To comply with K.S.A. 79-3610 and K.A.R. 1981 Supp. 92-19-36, the Department of Revenue should improve its procedures to ensure that jeopardy assessments are made immediately when a taxpayer fails to file a return after notice from the Director and either terminates business operations or continues the act of making retail sales.

Agency response. The Department said it disagrees with the recommendation because of current statutory provisions. It noted that there are several statutory changes that should be considered under the sales and

withholding tax laws to provide an adequate legal basis for making jeopardy assessments. The response included a detailed explanation of why current statutes are deficient in that taxpayers may not receive actual notice of the filing of the warrant and that jeopardy assessments are tied to immediate collection procedures. It called for codifying K.A.R. 92-19-36 by statute to provide a procedure for issuing jeopardy assessments because a taxpayer has failed to file a return and not tie them to immediate collection procedures.

The Department also expressed concerns over practical difficulties in issuing jeopardy assessment warrants following "a first delinquency notice." It said that such assessments could not be undertaken without a significant increase in staff, and that eliminating the second collection mechanism provided by the Field Services Bureau would result in the filing of warrants against the property of taxpayers who had already made payments that had not yet been posted.

Legislative Post Audit points out that the recommendation was not made to call for a procedural improvement, but rather to bring the Department into compliance with current law and regulations. It is interesting to note that K.A.R. 92-19-36, which the Department called for codifying by statute, is the very regulation the Department is not enforcing. The fact that the Department considers changes to the law to be warranted does not negate the fact that it is not in compliance with current law and regulation.

Using Jeopardy Assessments More Aggressively

1. To provide more incentive for taxpayers to file returns on a more timely basis, the Department of Revenue should consider holding taxpayers liable for the full amount of jeopardy assessments when such assessments are greater than the amount of actual returns filed. However, to also ensure that taxpayer rights are upheld under the law, notification of jeopardy assessments should be sent by registered mail and should include:

--Notification of the amount assessed.

--Notification that a tax warrant has been issued.

--A warning that failure to request a hearing on the accuracy of the jeopardy assessment will make the taxpayer liable for the full amount assessed or the amount of actual taxes, penalty, and interest due whichever is greater.

2. As an alternative to the first recommendation, the Department could seek legislation amending K.S.A. 79-3610 and K.S.A. 1981 Supp. 79-3229 to provide for increased penalties when taxpayers do not respond to jeopardy assessments in 15 days.

Agency response. The Department said it disagrees with both recommendations. It first reiterated several concerns stated in its response to the previous recommendation regarding the "possible constitutional defects" in the present statutory procedures concerning issuance of jeopardy assessment warrants. The Department further stated that the question of the validity of the assessment and the lien created by the warrant weigh heavily on the Department's current practice of abating jeopardy assessments when the actual liability, penalty, and interest have been paid. Citing a second reason for disagreement with the recommendations, the Department said that if it were to refuse to abate jeopardy assessments, it appears a taxpayer could successfully defeat the estimated assessment by the filing of amended returns. The Department then presented an example of a business in severe financial trouble and concluded that the case illustrates three principles: district courts are generally reluctant to force compliance with jeopardy assessments higher than actual liability, jeopardy assessments are made by estimated amounts based on highest sales months and therefore are often much higher in amount than the actual liability, and warrants are a poor collection tool.

The Department said that in light of the current state of the economy, forcing a taxpayer to pay an arbitrarily high estimated assessment would put taxpayers out of business in many cases, and that such a policy "is not good for either the State or its citizens." The Department said it also does not agree with the second recommendation for the same reasons and that it does not believe that, absent of fraud, this is a viable alternative.

Legislative Post Audit points out that the recommendation considers the "possible constitutional defects" noted by the Department in that it suggests provisions for strengthening the notification process. As a result, the defects that the Department points out as relating to the recommendation in fact do not relate to the recommendation but rather to the current practices of the Department.

Legislative Post Audit acknowledges that a taxpayer could perhaps defeat a jeopardy assessment by filing amended returns. However, no one will know whether this would be an effective remedy for the taxpayer until it is tested.

Issuing Warrants on a Timely Basis

To comply with the provisions of K.S.A. 79-3235, the Department of Revenue should adjust its procedures for follow-up on delinquent withholding tax accounts to provide for issuing warrants on delinquent accounts not filing within 60 days of the date the tax was due.

Agency response. The Department said it does not agree with the recommendation because it would require the Department to eliminate the second notice in its current collection process. It further noted that to short-circuit a procedure that works (referring to the audit's statement that 88 percent of delinquent returns are filed after the first and second notices) seems unreasonable and that the success rate on warrants is less than 25 percent.

Legislative Post Audit notes that the recommendation was made, not as a procedural suggestion, but rather to bring the Department into compliance with the law. Regardless of whether or not the Department agrees with the recommendation, failure to comply places it in violation of K.S.A. 79-3235.

Ensuring That Revocations are Enforced

To help ensure compliance with sales tax enforcement statutes and to help ensure equitable enforcement among all sales tax accounts, the Department of Revenue should:

1. Improve written criteria for determining when sales tax registrations should be revoked. Among other points, the criteria should include for all taxpayers:
 - The number of delinquencies.
 - The dollar amounts owed in delinquent taxes.
 - The length of time the accounts have been delinquent.
2. Ensure that revoked registrations are not reinstated until businesses fulfill necessary requirements for reinstatement.
3. Work with the Attorney General's Office in prosecuting businesses that make sales after sales tax registrations are revoked. The fines should be imposed as already provided in K.S.A. 79-3615.

Agency response. Responding to the first recommendation, the Department said that it has had such written procedures for several years

and included a copy of the procedures as an attachment to the response. The response did not explicitly agree or disagree with the second recommendation. Responding to the third recommendation, the Department said that the present law and staffing of the Department does not lend itself to initiating criminal action against businesses that operate after a registration was revoked. The Department said that discussions with attorneys in the criminal division of the Attorney General's Office concerning potential criminal prosecutions under the same "willful" standard of the income tax laws have led it and the Attorney General's Office to conclude that such prosecutions would be difficult to obtain without the development of proper evidence. It said that the Legal Services Bureau has initiated criminal contempt actions in situations in which a retailer continues to operate in violation of an injunction that was imposed for operating while registration was revoked. It noted, though, that several judges have indicated that they feel this notion "smacks of the debtor's prison concept." It also said that obtaining a conviction for contempt is a difficult and lengthy process and, because of its limited success, is only attempted in extreme cases. The Department concluded that it has no authority to impose fines, either civil or criminal, upon a retailer who violates the Retailers' Sales Tax Act and that the fine provided for in K.S.A. 79-3615 is set forth as limitations for the courts when a conviction is obtained.

Legislative Post Audit acknowledges that the Department is correct in responding that it has written revocation procedures for sales tax accounts, and the text of the report has been adjusted to reflect this. However, it is Legislative Post Audit's opinion that these procedures should provide more clear-cut direction for agency employees. While the procedures for accounts over \$2,500 are relatively clear, the procedures relating to accounts in the \$0 to \$2,500 categories leave revocation entirely to the judgment of delinquency control personnel, as mentioned in the report. It is in these cases that a specified number of delinquencies or dollar amount in arrears is necessary to provide for more equitable administration of the law.

The wording in the text also has been adjusted to more clearly reflect how fines are imposed. It was never the intent of the recommendation nor the belief of the auditors that the Department could impose fines for violation of the Retailers' Sales Tax Act.

Preparing Injunctions on a More Timely Basis

To provide more timely and effective enforcement of the law, the Department of Revenue should reduce the time between referral of a case to the Legal Services Bureau and the issuance of a petition for injunction.

Agency response. While the Department agreed, in principle, with the recommendation, it took exception to the "selective presentation" of the findings. Specifically, the Department noted that the auditors requested statistical data for fiscal years 1977 through 1981 when only two years were shown in the report. It also said that the chart presenting the findings in the report purports to show no activity is occurring during the legal process. The Department also noted that the report appears to urge the Department to summarily shut down a business as quickly as possible whenever a field representative is unable to collect on an account. It also said that the report "lightly passed over" the Department's procedure of initiating a demand letter prior to formally filing a petition for injunction. It added that this procedure has been successful in collecting taxes, penalties, and interest. In some cases, the Department said it agrees to a payment plan whereby accrued liability is paid over a period of time. Under this procedure, much of the liability accrued on accounts that have been recommended for injunction is collected without the need to force the closure of several hundred businesses per year. According to the Department, this procedure demonstrates that the involvement of attorneys will induce the collection of much of the money the Department has been previously unable to collect. The Department said that the report also fails to note that many injunctions are held open by the courts and that the length of time a case spends on the injunction process is not directly related to laxness. The Department concluded that the fact that 19 of the 30 cases reviewed were dismissed shows the effectiveness of its injunction procedure as a collection tool.

Legislative Post Audit points out that the reason only two years appear in the audit's analysis is that the data supplied by the Department for the first three years is inconsistent with the data for the last two years. Further, Department employees cautioned the auditors on using the entire five-year period for reporting purposes.

The chart in the report illustrating the findings in this area displays the portion of the injunction process attributable to the Department of Revenue prior to filing a petition in relation to the time the court spent resolving the petition. Also, full mention is made in the text that a demand letter is prepared during this time period. Regarding the Department's statement that the report appears to urge the Department to shut down businesses, the accounts referred to in this section of the report have already gone through all other collection efforts and have had their registrations revoked. The businesses are operating in violation of the law and should be closed. The central issue of this audit finding, however, is not whether the business should be closed, but whether the Department is acting quickly to close the business once the decision is made.

Initiating Procedures in a More Timely Manner

To ensure that all actions available in enforcing the State's tax laws are applied, the Department of Revenue should

initiate procedures in a more timely manner after legislation is passed.

Agency response. The Department did not respond directly to the recommendation, but described the success of the procedure once it was implemented.

Strengthening Bonding Policy and Practices

To help adequately protect the State from losses from unremitted sales and withholding taxes, the Department of Revenue's bonding policy should be strengthened through the following actions:

1. The Legislature should consider amending State law to require all withholding taxpayers to post a bond at the time of registration.
2. The Department of Revenue should take the following actions:
 - a. Amend State regulations to require all businesses remitting sales and withholding taxes to post bond at the time of registration equal to an estimated three months' tax liability, and to maintain that bond until a satisfactory payment record is established. (A period of perhaps two years.)
 - b. Institute a policy that requires additional bonds for sales and withholding tax accounts that have become "high risk" accounts. The policy should specify:
 - The number of delinquencies that an account can acquire before being designated a "high-risk" account.
 - The point in the collection follow-up process (such as after the business does not respond to the first notice of delinquency) when the additional bond is to be requested.
 - Immediate revocation for sales tax accounts not supplying the required bond.
 - c. Periodically review accounts and update them to require additional bonds if the existing bond is found to be insufficient to meet the current average, as called for in State regulations.

Agency response. The Department did not specifically agree or disagree with the recommendation, noting that it was a matter that should be addressed legislatively rather than through administrative action. It said that if the Legislature supports the concept of mandatory bonds, some consideration should be given to a uniform bond that would cover all business taxes for which the taxpayer is registered to reduce the taxpayers' paperwork. It also commented that many taxpayers simply cannot qualify for surety bonds and do not have the financial resources to post a cash or escrow bond. It concluded that the Department has an aggressive bonding policy reflected in an increase in cash bonds required from 378 in fiscal year 1978 to 944 in fiscal year 1982.

Legislative Post Audit notes that most of the recommendations in this area do in fact call for Department actions that do not necessarily need to be initiated by the Legislature. Although legislative action would be necessary to require bonds at registration from all withholding taxpayers, K.S.A. 79-3616 appears to already allow the Department such discretion for sales tax accounts. The increase in cash bonds noted by the Department represents only about 6 percent of new registrants. The measure of the effectiveness of a bonding policy is not whether the number of bonds obtained has increased, but whether the State is adequately protected against lost tax revenue when it is necessary to seize a bond. The auditors' testwork displayed in the report demonstrates that nearly \$30,000 was unrecovered from only 16 cases because of bonding inadequacies.

Matters Remaining for Legislative Attention

The Department of Revenue has disagreed with many of the recommendations in this report. Most of the areas of disagreement concerned recommendations that called for compliance with the law. In many instances, the Department's responses implied that it lacked the personnel required to bring the Department into compliance. Legislative Post Audit would note, however, that if the Department implemented one of the recommendations with which it disagreed--updating sales tax remittance cycles--fewer returns would need to be processed, thus freeing up personnel to implement recommendations in other areas, such as reviewing postmarks to enforce filing deadlines. Also, the Department disagreed or did not explicitly agree with several recommendations calling for administrative changes. Finally, several recommendations call for legislative rather than agency action. The recommendations remaining for consideration by the Legislative Post Audit Committee and the Legislature can be summarized as follows:

Complying With the Law

Enforcing filing deadlines. To comply with K.S.A. 1981 Supp. 79-3607 and K.S.A. 79-3298, the Department needs to eliminate the grace periods for filing late returns.

Assessing timely penalties. To comply with K.S.A. 1981 Supp. 79-3228, the Department needs to determine the tax due and assess a 50 percent penalty when a taxpayer fails to file a withholding tax return within 20 days of notice by the Director.

Issuing jeopardy assessments on a timely basis. To comply with K.S.A. 79-3610 and K.A.R. 1981 Supp. 92-19-36, the Department needs to issue jeopardy assessments immediately after businesses fail to file returns upon notification from the Director of Taxation.

Issuing warrants on a timely basis. To comply with K.S.A. 79-3235, the Department needs to adjust its follow-up procedures to provide for issuing warrants on delinquent accounts not filing within 60 days of the date the tax was due.

Ensuring that revocations are enforced. The Department needs to ensure that revocations are enforced and that revoked registrations are not reinstated until businesses fulfill necessary requirements for reinstatement.

Preparing injunctions on a more timely basis. To provide more timely and effective enforcement of the Retailers' Sales Tax Act, the Department should reduce the time between referral of a case to the Legal Services Bureau and the issuance of a petition for injunction.

Changing Administrative Practices

Updating sales tax remittance cycles. The Department needs to periodically review sales tax accounts to ensure that accounts are placed on a payment cycle that coincides with K.S.A. 1981 Supp. 79-3607.

Dating returns when they are received. To provide a better basis for determining--after processing--whether a return was timely or not, the Department needs to establish a procedure for indicating the date filed on returns.

Strengthening bonding policy and procedures. Most recommendations in this area call for the Department (not the Legislature, as implied in the Department's response) to initiate action:

- To amend State regulations to require all businesses remitting sales and withholding taxes to post bond at registration.
- To institute a policy requiring additional bonds for "high risk" accounts.
- To periodically review accounts and update them to require additional bonds if bonds are found insufficient.

Amending State Laws

Amending withholding tax laws. The Legislature should consider amending K.S.A. 79-3298 to provide for filing returns monthly, quarterly, and annually, depending on the amounts of taxes remitted.

Establishing minimum penalties. The Legislature should consider amending K.S.A. 79-3615 and K.S.A. 1981 Supp. 79-3228 to provide for a minimum penalty for businesses delinquent in filing sales and withholding taxes. The penalty would also be applied to delinquent returns that owe no tax.

Using jeopardy assessments more aggressively. The Legislature should consider amending K.S.A. 79-3610 and K.S.A. 1981 Supp. 79-3229 to provide for increasing the penalties when taxpayers do not respond to jeopardy assessments in 15 days. (This recommendation was presented as an alternative to a recommendation that the Department consider holding taxpayers liable for the full amount of jeopardy assessments. The Department disagreed with both alternatives.)

Strengthening bonding policy and practices. The Legislature should consider amending State law to require all withholding taxpayers to post bond at the time of registration.

PROBLEMS IMPLEMENTING THE KANSAS BUSINESS INTEGRATED TAX SYSTEM

Summary of Legislative Post Audit's Findings

Since the end of fiscal year 1980, the Department of Revenue has been in the process of developing the Kansas Business Integrated Tax System to improve the Department's business tax processing, collections, and auditing functions. Legislative concerns have been raised about the delays in the implementation of the integrated tax system and about the costs of the system.

How do the initial cost and time estimates for the development of the Kansas Business Integrated Tax System compare with actual costs and time? The Department initially estimated that the integrated tax system could be completed by the end of fiscal year 1983 at a cost of \$1.6 million. In March 1983, the Department revised its initial estimates and stated that the sales tax and transient guest tax portions of the system would be completed in fiscal year 1984 and that the rest of the system would be completed in fiscal year 1985. The total cost estimates at that time were \$2.7 million. To date, the system has cost \$2.8 million and it is still far from complete.

Why has the implementation of the Integrated Tax System been delayed for so long? The first consultant took longer than anticipated to prepare the detailed design, and it was initially full of errors and inconsistencies that had to be corrected. The Department's review of the detailed design was ineffective and incomplete. In addition, the Department paid for the detailed design and let bids for the next phase of the project before all the problems with the detailed design had been resolved. A second consultant was awarded the contract to complete the development of the system. Within a week of beginning work, that consultant determined that the specifications from the earlier phase were not detailed enough for coding. As a result, fixing and rewriting the detailed design specifications consumed much of the time during this phase. The consultant was able to have its contract modified so that it did not have to complete the system before it left. Since the consultant left, the Department has spent about 24,000 hours working on the system. It has not yet been completed for several reasons. The Department has not assigned a full-time manager to run the project, and it has reduced the resources available to the project.

What is the business integrated tax system currently expected to be able to provide, when, and at what cost? The Department is testing the transient guest tax on the integrated tax system. It expects to be running transient guest taxes using current data within the month. Sales tax programs are generally written, but are not fully tested. Estimates of when sales tax will be implemented on the system range from one year to eight years. Department staff indicated that additional business taxes will be incorporated after sales tax, but no agreement exists on which taxes will be included when the system is completed. In addition, Department staff support the concept of the integrated tax system, but some expressed concern that parts of the system's current design could make it inefficient and unmanageable.

The audit recommends that the Department continue to implement the transient guest tax but halt work on the rest of the system. The audit also recommends that the Department reassess its business tax processing objectives and develop a realistic long-range plan for upgrading the State's tax processing capabilities, including such things as cost estimates, deadlines, provisions for a full-time project manager, adequate resources, and continuity in personnel.

IMPROVING COLLECTIONS ON CLOSED SALES TAX ACCOUNTS

Summary of Legislative Post Audit's Findings

Sales taxes are paid by consumers but collected by retailers and remitted periodically to the Department of Revenue. In some cases, retailers go out of business before remitting all the taxes they have collected. This audit was conducted to address legislative concerns about the Department of Revenue's procedures for collecting delinquent sales taxes from such retailers.

What is the sales tax liability of retailers who have gone out of business before remitting the sales tax receipts they owe? As of September 30, 1985, the Department of Revenue's accounts receivable records indicated that retailers who have gone out of business before remitting all sales tax receipts may owe the State as much as \$11.5 million. Also, these retailers owe up to \$1.1 million to the counties and another \$1.1 million to the cities. Automobile- and food-related businesses account for more than half of the outstanding liability.

What efforts are made to recover or minimize these outstanding sales tax liabilities, and how successful have those efforts been? The Kansas Retailers' Sales Tax Act provides several remedies for collecting delinquent sales taxes, but none apply specifically to retailers who have gone out of business. These remedies include penalty and interest charges, bonding, tax warrants, revocations of registration certificates, and injunctions. State law also provides for the imposition of liability on purchasers of businesses with delinquent sales taxes, and for fines and jail terms for delinquent retailers.

Once retailers have gone out of business, the State's collection procedures are generally ineffective. In a sample of 50 delinquent, closed businesses, the auditors found that the Department of Revenue collected only about \$49,000 of the \$545,000 owed to the State, or about nine percent. Most of the amount collected--\$43,450--was recovered from bonds. However, few retailers had bonds when they closed, and the available bonds were not even sufficient to cover the outstanding taxes. In addition, 38 of the closed businesses sampled had some history of payment problems while they were operating. In those cases, the Department was often lenient with the retailers while they were still in business.

Can the State improve its ability to collect outstanding sales tax receipts from retailers who are going or have gone out of business? The Department of Revenue should attempt to maximize collections before businesses close. If collections cannot be made on delinquent accounts, the Department should attempt to have businesses closed before further obligations are incurred. The audit recommends that the Department of Revenue develop and follow standard procedures for more aggressive and uniform enforcement of the Retailers' Sales Tax Act. Changes in State law and administrative procedures could also improve collections.

PERFORMANCE AUDIT REPORT

REVIEWING THE DEPARTMENT OF REVENUE'S NEW COMPUTER SYSTEMS

Vehicle Information Processing System Computer Assisted Mass Appraisal System

OBTAINING AUDIT INFORMATION

This audit was conducted by Cindy Lash and Leo Hafner, Senior Auditor, and Rakesh Mohan, Auditor, of the Division's staff. If you need any additional information about the audit's findings, please contact Ms. Lash at the Division's offices.

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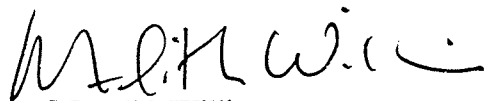
REVIEWING THE DEPARTMENT OF REVENUE'S NEW COMPUTER SYSTEMS

Summary of Legislative Post Audit's Findings

Is the Computer Assisted Mass Appraisal system at the Department of Revenue working as intended? Most county appraisers think that the property reappraisal computer system is working as intended and that the system has begun to achieve its intended benefits. However, many appraisers thought the system was very complicated to operate. In general, the system was installed in the counties as scheduled, although errors in the software resulted in slight delays. The costs associated with the system exceeded projections by about \$1.8 million, mainly because counties purchased more computer hardware than recommended. The State had agreed to share the cost of hardware and software for the system with counties. The State's share was limited to approximately 50 percent of the \$3.3 million projected cost.

Is the Vehicle Information Processing System at the Department of Revenue working as intended, and has the Department been able to make its operations more efficient as a result of this system? Ninety-eight percent of the county treasurers who responded to our survey agreed that, overall, the vehicle information system was working as intended. According to treasurers and staff at the Department of Revenue, the system has begun to achieve most of its projected benefits. Law enforcement officials who work with the system indicated that the information they received during 1988 was not necessarily more current and accurate, but reported that the problems appeared to diminish later in the year. The Department has achieved some operating efficiencies in the areas of staffing, paperwork backlogs, and equipment. The vehicle information system took about a year longer to develop than anticipated and cost substantially more than planned, partly because of major changes in the system during its development. Originally estimated to cost about \$2.7 million, the system ended up costing in excess of \$10 million. The exact cost is unknown because the Department lacked an accurate method to account for the costs of developing the system.

This report includes recommendations for updating part of the vehicle information system more quickly and for developing a cost accounting system for major projects. We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.



Meredith Williams
Legislative Post Auditor

REVIEWING THE DEPARTMENT OF REVENUE'S NEW COMPUTER SYSTEMS

Under provisions of the Kansas Sunset Act, the Department of Revenue was scheduled for sunset review in 1989. As part of that review, the Legislative Division of Post Audit was asked to review the Department's new computer systems for property reappraisal and vehicle processing. The Computer Assisted Mass Appraisal (CAMA) system, developed for Statewide reappraisal, allows counties to maintain detailed property characteristics and establish the value of each parcel of property in the State. The Vehicle Information Processing System (VIPS) allows counties to enter vehicle title and registration data and make inquiries of the State vehicle database, while updating State records daily to reflect counties' transactions.

The audit reviews these two systems and answers the following specific questions:

1. **Is the Computer Assisted Mass Appraisal system at the Department of Revenue working as intended?**
2. **Is the Vehicle Information Processing System at the Department of Revenue working as intended, and has the Department been able to make its operations more efficient as a result of this system?**

The issue of improving the efficiency of operations was not considered for the property reappraisal system. That system was designed to automate a county function, and thus would not have been expected to improve the efficiency of the Department's activities.

To answer these questions we surveyed county appraisers, county treasurers, and officials of the Department of Revenue. We also interviewed law enforcement representatives and examined planning documents and cost estimates for each system. Finally, we reviewed expenditure data for the property reappraisal system. These data were not readily available for the vehicle information system.

Overall, both systems appear to be working as intended. The property reappraisal system has begun to achieve most of its intended benefits. It was developed and placed in operation in the counties in a timely manner. Costs associated with the system were higher than projected, primarily because counties purchased more hardware than recommended by the Department. The vehicle information system has also begun to achieve most of its intended benefits. It took slightly longer to develop than planned and, because the Department had no cost accounting system for it, the actual cost of the system is unknown. The Department has reduced its backlogs in some areas of vehicle processing, and has eliminated some staff positions because of efficiencies achieved with the system. These findings are discussed in more detail in this report.

Overview of the Two New Computer Systems

Computer Assisted Mass Appraisal. When the 1985 Legislature mandated Statewide reappraisal of real property, it also required the Department to provide for the development of a computer system to process appraisal data uniformly. The Department hired a consultant, CAMA Technology Associates, to determine the requirements for the State's system, and awarded the software contract to Cole-Layer-Trumble in June 1986. The reappraisal software is a sophisticated package, designed to run on both minicomputers and mainframe computers.

Vehicle Information Processing System. In 1982 the Department began work on a new vehicle information system. The existing system, developed in 1961, had become a patchwork of programs unable to adequately or efficiently handle the increasing volume of vehicle registrations and titles. The Vehicle Information Processing System was designed to improve service to vehicle owners through improved processing abilities at county treasurers' offices. Initial plans called for the system to operate on State-purchased microcomputers in each county. However, in 1986 the Secretary of Revenue proposed that the State purchase minicomputers for counties so that, in most cases, the vehicle information system and the property reappraisal system could be operated on the same machine. He indicated that this would be more economical for the State in the long run and would provide counties with the opportunity to purchase extra computer capacity to automate other county functions.

Because the Department was responsible for both the property reappraisal and vehicle information systems, it chose to integrate the operation of both systems on the same computer in county offices, where possible. According to reappraisal legislation, the State would reimburse counties for approximately 50 percent of the cost of hardware for the reappraisal system. The Department was also responsible for reimbursing the counties for hardware needed to operate the vehicle information system. To encourage counties to participate in the joint venture, the Department offered to reimburse counties for the entire cost of the computer if counties purchased a unit large enough to operate both systems. Eighty-nine counties chose to accept this option, eleven counties operate each system separately on a minicomputer, and five counties operate the vehicle information system on a minicomputer and the reappraisal system on their mainframe computers.

Both systems are very new and have had limited use in the counties. The property reappraisal system was installed in county appraisers' offices between February and April 1987, but appraisers initially used only the system's data entry capabilities. By the time of our survey in October 1988, some appraisers had not yet used the more advanced functions, such as modeling. The vehicle information system was installed in county treasurers' offices between December 1987 and December 1988. Thus, the audit provides a preliminary look at how well the systems are actually working. In some cases, problems that were reported may be temporary, or may be the result of a lack of familiarity with the system. On the other hand, problems may yet arise as treasurers and appraisers begin to explore the full capabilities of the new computer systems.

Is the Property Reappraisal Computer System at the Department of Revenue Working As Intended?

Most county appraisers think that the property reappraisal computer system is working as intended and that the system does or will provide all its intended benefits. However, many appraisers thought the system was very complicated to operate. In general, the reappraisal computer system was installed in counties as scheduled. The costs associated with that system exceeded projections, mainly because counties purchased more computer hardware than the Department of Revenue recommended. These findings are described in the sections that follow.

County Appraisers Think That the Reappraisal Computer System Has Been Difficult to Learn, But Is Working As Intended And Is Achieving Its Projected Benefits

We surveyed all county appraisers and conducted follow-up interviews with a sample of appraisers. Of the 105 appraisers surveyed, 74 (70.5 percent) responded. We also interviewed officials of the Kansas Department of Revenue, and obtained information from officials of IBM and Cole-Layer-Trumble, the developers of the reappraisal software.

The survey of county appraisers included questions concerning the benefits of the system, training, ease of operation, and problems associated with the system. The six major benefits that were included in the survey were selected from material that was provided by the Department of Revenue, and from an interview with the Department's Reappraisal Coordinator. These benefits are listed in the table below. For each projected benefit, we called a sample of county appraisers who said the benefit had not been achieved to ask for further explanation of their responses. We also called a sample of appraisers who indicated they had problems with the system to learn more about the cause and effect of these problems.

Nearly nine out of 10 appraisers who responded to the survey think that overall, the reappraisal computer system is working as intended. In addition, nearly 80 percent of the appraisers who responded to the survey reported that the system has achieved or will achieve all the projected benefits. ✓

County Appraisers' Responses When Asked If CAMA Had Achieved Its Intended Benefits

<u>Benefits to be provided by the System</u>	<u>Percent of County Appraisers who said:</u>		
	<u>Benefit has been or will be achieved</u>	<u>Benefit has not been achieved</u>	<u>Don't know</u>
Produce a variety of administrative reports	91.8%	2.7%	5.5%
Provide opportunity to automate tax functions	87.5	4.2	8.3
Minimize data entry errors	87.3	12.7	0.0
Use of rigorous valuation techniques	86.1	2.8	11.1
Save time compared to manual processing	85.0	10.9	4.1
Eliminate hand transcription of data	79.4	19.2	1.4

County Appraisers' Comments On...

...Training Given by Cole-Layer-Trumble

"The main problem was that training took place long before any appraisal activity started in most counties. So most was not used for sometime. The old saying 'If you don't use it you'll lose it' became very true!"

"27 hours was not enough time to comprehend the technical applications. Training was provided MANY months before the system was utilized."

...Training Given by The Department of Revenue

"The problem is by the time we put the system to use, it is fuzzy..."

"Training mostly too early for our reappraisal schedule."

...User's Manual Provided by Cole-Layer-Trumble

"Cumbersome, time consuming, confusing, and not written in simple English when it could be. Geared toward a user proficient enough not to need the manual, not someone who does need it."

"If you know what you are doing, they are O.K. If not, you might as well throw them out. You can't find what you are looking for."

...Ease of Operation

"For a lot, if not most, of the Kansas counties KS CAMA is overkill."

"The program is very versatile in its statistical and analytical capabilities. However, learning to exploit the full potential is very complicated until one becomes familiar with the program..."

...Technical Support Provided by the Department of Revenue

"The Support Center has been very good in answering our questions whenever we contact them."

"Support Center staff has done an exceptional job."

Our follow-up telephone interviews with county appraisers who said one or more of the projected benefits were not achieved indicated two things. First, for some appraisers, working with the system was so complicated and time-consuming that it prevented them from achieving certain benefits. Second, many appraisers were still in the learning process at the time of the survey, but said they had realized the benefits by the time of our follow-up contacts.

More than two-thirds of the appraisers reported that the reappraisal computer system was difficult to learn to operate. The Cole-Layer-Trumble software was selected because it had a wide variety of features that were useful in developing good appraisal values. However, the capabilities apparently contributed to the difficulties that appraisers experienced in learning to operate it. In addition, many appraisers indicated that the user's manual provided by Cole-Layer-Trumble was complicated and not useful.

About 84 percent of the appraisers said that the original training from Cole-Layer-Trumble was unsatisfactory and slowed down their work. The Department of Revenue was aware of the problem and tried to strengthen its own training in response; however, nearly 60 percent of the appraisers rated the Department's training as fair or poor on our survey. In contrast, evaluations of the Department's training courses by attendees immediately after the training were generally positive.

It is difficult to explain this difference in the ratings. Possibly the people who responded to our survey were not the people present at the training. Or possibly the training was good at the time it was given, but people forgot the information before they could use it. In spite of their

complaints about the training, nearly 90 percent of the appraisers described the technical support they received from the Department after the reappraisal computer system was installed as good or excellent.

The Reappraisal Computer System Generally Was Installed As Scheduled, Although Errors in the Software Resulted in Slight Delays

In October 1985, the Department hired CAMA Technology Associates as the State's consultant to determine what capabilities were needed for the reappraisal computer system. After reviewing 15-20 different software packages, the Department selected Cole-Layer-Trumble in June 1986 to provide a customized software package to meet the appraisal needs of Kansas counties. Two months later, the Department accepted IBM's proposal to provide hardware to the counties in conjunction with the Vehicle Information Processing System. The estimated time for hardware to be installed was mid-to-late March 1987. The installation was completed by the first week of April 1987.

Errors in the customized software resulted in a one-month delay in completing software installation in the counties. Cole-Layer-Trumble was granted a three-week extension for delivering the software to the Department to allow additional system testing. Once the software was delivered, the Department had to perform a considerable amount of testing because of remaining errors in the software. The software installation was completed in all but four counties in April 1987. In these four counties, problems installing the hardware delayed the installation of the software. Errors continued with each update to the software, causing the Department to spend about one month testing each update before releasing it to the counties.

Counties Will Be Responsible For Maintenance of Their Property Ownership Maps

The first step in reappraisal involved creating property ownership maps for each county. The estimated cost of mapping was in excess of \$20 million, approximately one-third of the total estimated cost of reappraisal. Because of the cost and effort involved in mapping, and the need to keep maps up-to-date, the Department considered maintaining and updating counties' maps at the State level. At that time, computer mapping software was expensive to operate, and the Department was concerned that counties might not be able to maintain their investment in mapping.

The Department explored the possibility of using the Department of Transportation's Intergraph System to maintain the maps. The Intergraph System is a sophisticated drawing software package which the Department of Transportation uses for road and bridge design, and which both Departments agreed would have probably been suitable for maintaining county maps.

Two events prevented the Department of Revenue from pursuing this option. First, many counties reported that they preferred to maintain their own maps, even if they had to do so manually. Second, the cost of operating the mapping software programs dropped dramatically, making it feasible for counties to maintain their maps on their own computers.

The Department is still interested in having a Statewide set of property ownership maps, although for a different purpose. The Department of Administration has requested funds to obtain Geographic Information System (GIS) software, which has analytical as well as drawing capabilities. If it does obtain such a system, selected State agencies would be able to access the software. The Department of Revenue indicated that the capability to analyze property data with such a system would be extremely useful to them.

✓ **The Costs Associated With the Reappraisal Computer System Exceeded Projections, Mainly Because Counties Purchased More Computer Hardware Than Recommended**

The Department developed the initial cost projections for the reappraisal computer system in 1986. The projected cost of the system was \$3.3 million, which included only the cost of hardware, software, and software enhancements. These are the costs that were to be shared by the State and the counties. The State agreed to reimburse counties for approximately 50 percent of the total projected cost per parcel, or approximately \$1.65 million. Increases in the actual costs have caused the State's share to fall to about 32 percent of actual county expenditures. The projected and current costs associated with the implementation of the system are listed in the table below.

Table 10

**Implementation Costs Associated With
The Reappraisal Computer System**

<u>Item</u>	<u>Projected Cost</u>	<u>Current Cost</u>	<u>Difference</u>
Hardware	\$1,697,500	\$3,220,939 ^(a)	\$1,523,439
Software & Enhancements	<u>1,600,640</u>	<u>1,908,200</u>	<u>307,560</u>
Total	\$3,298,140	\$5,129,139	\$1,830,999
State's Share of the Cost	\$1,649,070	\$1,649,070	
State's Share as a Percent of Cost	50%	32%	

(a) Excludes estimated reimbursement of \$3,788,328 for costs shared by the vehicle information processing system.

✓ **Software costs were slightly more than projected, but hardware costs were substantially more.** The initial software cost projections were based on the assumption that all 105 counties would run the reappraisal software on IBM System 36 hardware. But the five largest counties (Douglas, Johnson, Sedgwick, Shawnee, and Wyandotte) chose to conduct reappraisal work on their existing mainframe hardware. Consequently, these five counties spent significantly more money on software than projected. Overall, software costs exceeded projections by about \$300,000. On the other hand, hardware costs exceeded projections by \$1.5 million.

✓ The Department of Revenue told us that counties purchased more than the recommended amount of hardware so they could computerize other county operations. It is also possible that counties purchased additional hardware because the recommended configurations were insufficient to adequately conduct reappraisal work. We did no testwork to determine why counties purchased more hardware than recommended. However, 88 percent of the appraisers responding to our survey stated that they were running more than the reappraisal and vehicle information systems on their equipment.

In addition to the shared costs, the State incurred about \$700,000 in other expenses related to the reappraisal computer system. These include the consultant fee and the State personnel and data processing charges. The consultant fee was paid to CAMA Technology Associates for assisting the Department of Revenue in determining what capabilities were needed for the reappraisal computer system and providing consultation to the Department for the implementation of the system. The personnel cost includes actual salaries, fringe benefits, and related expenses such as travel and telephone for two employees whose time is dedicated solely to the reappraisal computer system.

Is the Vehicle Information Processing System Working As Intended?

The Vehicle Information Processing System was intended to provide quicker, more error-free service to vehicle owners, current and accurate information for law enforcement officials, and operating efficiencies for the State and the counties.

According to county treasurers and staff at the Department of Revenue, the system has generally achieved most of these benefits. Law enforcement officials indicated that the information they received during 1988 was not necessarily more current and accurate, but reported that the problems appeared to diminish later in the year. The vehicle information system took about a year longer to develop than anticipated and cost substantially more than planned, partially because of major changes in the system during its development. The system has reduced duplication between the State and the counties, and has resulted in some operating efficiencies at the Department of Revenue. These findings are discussed in the sections that follow.

The Vehicle Information System Is Beginning to Achieve Its Intended Benefits

We reviewed planning documents for the vehicle information system to identify the major benefits it was supposed to achieve. To learn how well the system is working, we then surveyed 53 county treasurers who had at least 90 days experience with the system at the time of the audit. Forty-seven of those treasurers responded to the survey. We also surveyed eight supervisors at the Department of Revenue who work with the vehicle information system. Officials of the Highway Patrol and the Kansas Bureau of Investigation were contacted, as were 15 dispatchers from city, county and

State law enforcement agencies, to determine what their experience with the new system has been. We also determined the average length of time to issue a sample of titles under the old and new systems.

County Treasurers Often Praised the New System

"It takes a little longer the first time on a renewal but overall it is super. We really like it."

"We are very pleased with VIPS and hope all enhancements can be completed soon."

"I didn't think I liked it. But after getting used to it, the old way wouldn't be to my liking anymore."

"The system has made our local office procedures easier and more productive for employees and customers."

"We have always received a prompt response and everyone has always been friendly and helpful. Very good support."

County treasurers and Department supervisors reported that, overall, the vehicle information system was working as intended. Ninety-eight percent of the treasurers who responded to our survey agreed with this statement. They also reported that the system was easy to learn and operate, and that the training and support they received was good. However, some treasurers thought that the system had not yet achieved all the benefits that it was supposed to provide.

**County Treasurers' Responses
When Asked If VIPS Had Achieved Its Intended Benefits**

<u>Benefits to be provided by the System</u>	<u>Percent of County Treasurers who said:</u>		
	<u>Benefit has been or will be achieved</u>	<u>Benefit has not been achieved</u>	<u>Don't know</u>
Less time to fill out county treasurers' daily reports	93.6%	6.4%	0.0%
Reliance on manual procedures reduced	93.6	2.1	4.3
Counties will not have to develop vehicle computer systems	83.0	6.4	10.6
Reduced duplication between State and counties	78.7	6.4	14.9
Quicker, error-free service to vehicle owners	70.2	25.5	4.3
Simplified error correction process	66.0	25.5	8.5
Fewer title applications held up at the Dept. of Revenue	63.0	17.4	19.6
Improved inventory controls over license plates and decals	59.6	17.0	23.4
Current & accurate information to law enforcement	55.4	25.5	19.1

We contacted a sample of those county treasurers who indicated that the system had not achieved some of the anticipated benefits. The table below shows the explanations they gave for the benefits which were most frequently reported as not achieved.

Benefit Not Achieved	Most Common Reason Stated
Quicker, Error-Free Service to Vehicle Owners	Completing a registration renewal takes three or four times as long as it did under the old system.
Current & Accurate Information for Law Enforcement	The system often indicates that a vehicle record cannot be found.
Simplified Error Correction	The treasurers are limited regarding what they can correct on the system.
Improved Inventory Controls	The system accepts duplicate license plate numbers and some transactions must be done manually.
Fewer Title Applications Held up by Department of Revenue	Some customers were not receiving their titles for three or four months.

Supervisors at the Department of Revenue agreed that the system is working as intended. Most said that the system resulted in a smoother workflow and that errors were easier to find and correct. However, more than half the supervisors did not know whether the system actually resulted in fewer errors. Four of the eight supervisors rated the training they received on the system as poor. They indicated that most of the training was by word of mouth and trial and error, and that more training was needed in some areas.

Department officials have worked on many of the problems reported by treasurers to help ensure that vehicle owners receive improved service. They acknowledged that it does take longer to renew a vehicle registration now than under the old system, and attributed part of the delay to the fact that vehicle owners were is-

County Treasurers Report Concerns About the New System

Although generally pleased with the new vehicle system, county treasurers were not without concerns. Examples include:

Problems with storage space

"...there is no room in our office to do or to store daily work. Computer paper boxes are bulky and inconvenient..."

"Our biggest problem is with the filing. We are running out of space with all the extra paper."

Problems with the system's response time

"Bringing up the title application screen or renewal screen is very slow. It takes at least 10 seconds to get the screen up and sometimes longer."

"Yes, this is working for the most part. However, we are hoping that the system will be a lot quicker in the future. The more counties that are implemented, the slower it becomes..."

Equipment problems

"We have been on the system for a year now and we continue to have modem problems. We have spent more than \$5,000 of our own money trying to have the problem corrected but no one seems to be able to fix it"

"Paper in our printer jams real often. Its the State's forms.."

sued new license plates this year. Also, insurance information was entered into the system for the first time. In the future, this and certain other information will need to be entered only if it has changed. They also expect that as people become more familiar with the computer terminals, the transactions should go faster.

Treasurers often had trouble retrieving information on the computer because many records were in the "work-in-process" file, where they are held until needed corrections can be made before updating the computer database. The Department is finishing a program that will allow the treasurers to view records in the "work-in-process" file. Department officials also indicated that they have adjusted the inventory program so that it will not accept duplicate license plate numbers.

Department of Revenue officials reported that backlogs in manually processed titles stacked up during conversion from the old system to the new system, resulting in delays of several months in issuing titles. The backlog peaked in August 1988.

To determine if the new system was producing titles faster than the old system,

we examined a sample of 20 titles issued in November 1986 and compared them with 20 titles issued in November 1988. We found that the average time to issue a title in the 1986 sample was 36 days. In 1988, the average time was about 11.5 days. Thus, it appears that the new system has significantly improved the process for issuing a vehicle title.

The goal of providing law enforcement access to more accurate, updated information was not fully accomplished during 1988. The major problems law enforcement dispatchers experienced in trying to retrieve vehicle registration information included:

- *receiving a printout of information on the wrong vehicle.* This occurred because of the interaction between the way the system stores license plate numbers and the changeover to new license plates. For example, an old Cloud County plate with the initial "E" followed by the numbers 123 would be stored in the system

exactly the same as a new license plate with the characters "CDE 123." This problem should have ended as of December 31, 1988, when the last of the old license plates expired.

- receiving only one or two lines of information on the printout.* This occurred in cases where a vehicle was sold and the title was transferred. The Department reported that programming for the transfer application was still under development.
- receiving the message "no record found" when a license plate number was keyed into the system.* This occurred because of the Department's backlog in entering registration data from counties that were not yet tied into the new system, and because of the number of records held up in the "work-in-process" file.

Law enforcement officials also reported that the system's records always indicated that a registration was current, even though it might actually have expired. Department of Revenue officials indicated that this problem will be resolved beginning in February 1989. The Department stated that it will run a program between the 10th and 15th of each month to update the expiration field for the previous month. The problem will still exist however, for the the first 10-15 days of each month before the program is run.

The system eliminated duplication between the State and the counties and achieved some operating efficiencies at the Department of Revenue. One of the major benefits proposed for the system was that it would eliminate duplication between the State and the counties. In addition, early justifications for the system stated that it would require fewer people to maintain the computer programs than the old system.

To determine if these and other operating efficiencies had occurred, we reviewed the process for handling titles and registrations both before and after the new system was installed. We also reviewed personnel changes in the Department of Revenue to see if the number of staff had been reduced.

One of the most apparent efficiencies the Department has achieved relates to leased equipment. The new system has allowed the Department to cancel its lease on the scanning equipment used for registration renewals. This will result in a savings of about \$100,000 annually. Our other findings are summarized below:

- The system has eliminated duplication in the processing of vehicle titles.* Under the old system, employees in the county treasurer's office typed up title application forms and sent them to the State to be retyped for computer processing. Under the new system, county employees type the title application information directly into the computer terminal, eliminating the need for State employees to re-enter data. Counties have also assumed responsibility for entering registration renewal information directly into the computer.

- The Department has eliminated a total of three staff positions.* It was able to eliminate 10 keyboard operator positions because of the decrease in data entry at

the State level. However, during the development of the system the Legislature authorized five additional programmer and analyst positions to work on the project, and two positions to help microfilm vehicle title documents and verify title information. Therefore, the net reduction in personnel at the Department of Revenue has been small.

•*Large backlogs of paperwork have been eliminated in two Department bureaus.* Under the old system, the Department had large backlogs of paperwork in the four bureaus that handle vehicle title and registration information. For the two bureaus that still have some backlogs, Department officials report that it may take several months to catch up on processing.

The system also has provided some capabilities not previously available. One of the advantages of the new vehicle system is its computer-assisted microfilm retrieval system. The Department can enter a microfilm number on title application documents and the computer will automatically retrieve the microfilm copy of that document when that number is entered into a terminal. This capability will save the Department significant staff time searching for copies of documents on microfilm.

While the Vehicle Information Processing System has allowed the Department to achieve some operating efficiencies, the system is still very new. Because the Department is still working to clear up some of the backlogs that occurred while converting from the old system, but given the way this system has streamlined the process, it would seem likely that additional efficiencies would occur in the future.

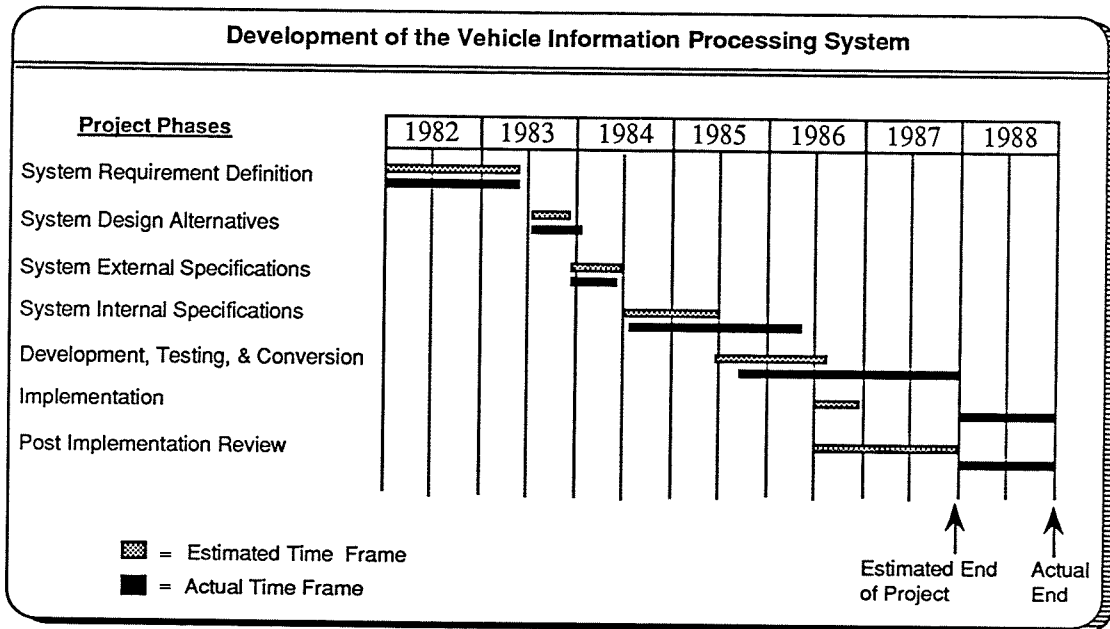
The Vehicle Information Processing System Took Longer to Implement Than Was Originally Projected

The Department of Revenue developed the Vehicle Information Processing System according to standard methodology adopted by the State's Division of Information Systems and Computing. Under that methodology, a project goes through a series of phases, as shown in the chart on the facing page.

The entire project took about a year longer to complete than originally planned. The project got significantly off schedule during the fourth phase of development. The consultant, Price Waterhouse, withdrew about one month after the scheduled completion date for the phase, but left several major tasks unsatisfactorily completed. The Department paid the full amount for the consultant's services even though some tasks had to be completed by the Department's own staff.

The development, testing, and conversion phase ran about one and one-half years longer than anticipated, primarily because of delays in the acquisition of hardware. There were initial delays in taking bids for microcomputer equipment to be placed in the counties. Then, in May 1986, the Secretary of Revenue decided to reject all bids for the microcomputer equipment in favor of placing minicomputers (IBM System 36) in the counties. This change was made to enable the equipment to support the property reappraisal system as well as the new vehicle system.

**Projected and Actual Development Times
For the Vehicle Information Processing System**



**The Vehicle Information Processing System
Cost More Than Was Originally Projected**

In 1983, the Department estimated the cost of developing and implementing the vehicle information system at \$2.7 million. The estimate was based on placing microcomputers in each county, rather than IBM System 36 minicomputers that were eventually placed in each county. This change significantly increased equipment costs. Department of Revenue officials responsible for developing the system gave us their estimate of costs to date:

<u>Expenditure Categories</u>	<u>Estimate of Costs As of October 1988</u>
Equipment & Maintenance	\$5,959,789
Software	570,595
Leased Line Charges	668,550
Consultants and Special Project Costs	779,880
Personnel Expense	1,970,659
DISC Charges	978,460
Total	<u><u>\$10,927,933</u></u>

Some of these costs, such as leased line charges and DISC charges, may include operating costs as well as development costs. Therefore, it is unlikely that the \$10.9 million estimate is directly comparable to the \$2.7 million original projection for implementing the system.

Because the Department did not have a cost accounting system in place at the start of the project, it is impossible to determine exactly how much it cost to develop the system. Attempts to recreate costs from the six-year development period would have been extremely time-consuming and probably inaccurate. Department officials indicated that the figures they supplied were their best estimate of the cost of the system as of October 1988.

Conclusion

Based on the information provided by county treasurers and appraisers, we concluded that both systems were operating as intended. However, law enforcement officials indicated an ongoing problem with registrations showing up as current when they have actually expired. The Department has partially addressed this problem by developing a computer program to update the records by the 15th of each month.

We also found that the Department lacked an accurate method to account for the costs of developing the vehicle information system. The Vehicle Information Processing System was a multi-year, multi-million dollar project for the Department of Revenue. Originally estimated to cost about \$2.7 million, the system ended up costing in excess of \$10 million. Part of that increase was caused by decisions to change the type of equipment placed in the counties. Those decisions were made by the Secretary of Revenue and approved by the Legislature. But those decisions did not account for all the increased cost; other specific areas where cost increases occurred and the reasons for those increases are less easily explained.

Without a system that accounts for the cost of personnel, equipment, and other items involved in completing a project, the Department is unable to adequately monitor costs as they are incurred and provide a full and accurate picture of the costs when the project is done.

Recommendations

1. To ensure that vehicle registration records do not show that a registration is current when it has actually expired, the Department should consider updating vehicle registration records as close to the first day of each month as possible.
2. To provide an accurate accounting of all the costs associated with major projects and to provide a better method of monitoring those costs, the Department of Revenue should develop a project cost accounting system for each new project that accurately accumulates all significant costs such as personnel, equipment, supplies, and overhead.

APPENDIX A

Agency Response

On January 20, 1989, we sent a copy of the draft audit report to the Department of Revenue for review and comment. The Department's written response is included in this appendix.

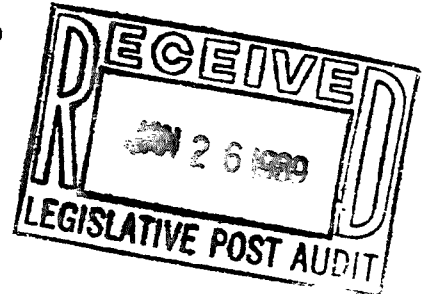


KANSAS DEPARTMENT OF REVENUE

Office of the Secretary
Robert B. Docking State Office Building
Topeka, Kansas 66612-1588

January 26, 1989

Meredith Williams
Legislative Post Auditor
Legislative Division of Post Audit
109 West 9th, Suite 301
Mills Building
Topeka, Kansas 66612-1285



RE: Performance Audit Report, Reviewing the Department of Revenue's New Computer Systems.

Dear Mr. Williams:

As requested by Legislative Division of Post Audit, the Department of Revenue hereby submits its response to the above-referenced Legislative Post Audit draft report.

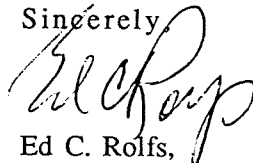
The Department of Revenue is proud of the success that has been achieved and which your audit report recognizes for the Computer Assisted Mass Appraisal (CAMA) and Vehicle Information Processing System (VIPS). This success was made possible by the efforts of dedicated staff members and competent consultants with the cooperative participation of the county appraiser and county treasurer offices.

Recognizing the complexity of the CAMA system, the Department placed much significance on its training efforts. Many appraisers have received personal training in our offices to ensure that they can achieve the full benefits provided by the system. We continue to support the training needs of the county appraisers by staffing the CAMA Support Center with trained personnel who are available every day to answer questions and provide necessary direction. This unit summarizes reported problems so that the Division of Property Valuation can address these needs in future training.

On page six, the auditors implied that it was possible that counties purchased additional hardware because recommended configurations were "insufficient to adequately conduct reappraisal work." Based on the work of project personnel and expert consultants, the Department's hardware recommendations were always set at levels which would more than accommodate the county's processing needs. Some counties purchased additional hardware to computerize other county operations, as pointed out in the report, which accounts for most of the difference between actual expenditures and projected costs.

For the VIPS system, the Department of Revenue intends to address both recommendations as quickly as possible. To ensure the accuracy of vehicle registration records (Recommendation No. 1), we have initiated a program change which will provide for timely updating of records. In addition, we plan to design and implement a standardized cost accounting system (Recommendation No. 2), so that costs for future projects can be more accurately accumulated.

Sincerely,



Ed C. Rolfs,
Secretary of Revenue