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Date

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Chairperson Wagle at 9:00 a.m. on January 18, 2000, in Room 519-S of the Capitol.

All members were present except: Rep. Howell - excused
 Rep. Campbell - excused
 Rep. Long - excused
 Rep. Edmonds - excused

Those attending from the Tax, Judicial and Transportation Budget Committee:
 Rep. J. Peterson
 Rep. Hermes
 Rep. Nichols

Committee staff present: Chris Courtwright, Legislative Research Department
 April Holman, Legislative Research Department
 Don Hayward, Revisor of Statutes
 Shirley Sicilian, Department of Revenue
 Ann Deitcher, Committee Secretary

Conferees appearing before the committee: Barb Hinton, Legislative Post Audit
 Randy Tongier, Legislative Post Audit
 Chris Clarke, Legislative Post Audit

The Chair introduced Barb Hinton of Legislative Post Audit who then introduced Randy Tongier of her staff who spoke to the Committee in regard to the Performance Audit Report (Attachment 1).

Mr. Tongier took the Committee through each of the four questions that were the most specific concerns. The first question, on page 7, was whether the income tax processing under Project 2000 had worked as intended. He said that the general, quick answer was that while most tax returns were processed without problems, by most accounts, people generally would say it didn't work as well as they would have liked. He then referenced the bulleted items on page 8.

In looking into the reasons for the problems, they found that there was one key factor contributing to a lot of the problems. It seemed that Project 2000 was automated to a great extent and the information that was in the computer system was giving out information that was inaccurate.

He said that why that information was inaccurate was the result of 4 different things. (1) The scanning and imaging was not read correctly; (2) there was incorrect manual entry. This included wrong tax-payer addresses; (3) there were tax-payer or tax-preparer errors. In some instances social security income was put down even though that's not taxable income. (4) They also saw glitches in the actual computer software.

Mr. Tongier concluded that the bottom line was, although there were some problems in the 1999 tax processing season that caused a lot of concerns and upset a few tax-payers, Project 2000 is a very sizable project and some of this was expected.

Comparing 1999 to 1998, refunds in 1999 took about twice as long to get out. By the end of October there were still 134 refunds needing to be processed, some from as far back as February. Factors contributing to those delays included the fact that there was more work to do in 1999. The Department processed 28% more refunds in 1999. That's 820,000 in 1999 as compared to 640,000 in 1998. The number of documents needing review and correction increased by 37%. (See graphs on pages 28 and 29).

Representative Gregory asked if the problems were the result of bad forms. Mr. Tongier said that in some cases this was the cause. The placement of the box was at times a problem and it was also caused by

CONTINUATION SHEET

information put into the wrong box.

Representative Johnston asked what the average time was for electronic processing. Mr. Tongier pointed out the information on page 24.

Representative Johnston then asked if those checks that come back marked undeliverable are not automatically forwarded by the post office. Mr. Tongier said that if there is a forwarding address the post office will forward it. If not, they are returned to the department.

When asked why there were so many more returns, Mr. Tongier said that the food sales tax is one issue. People who used to not file returns are now filing returns to get that.

Representative Wagle said she was under the understanding that there were two states currently suing AMS. Mr. Tongier said he only knew of one. Mississippi.

Don Hayward of the Revisor's Office said he understood that Utah had also filed suit. Mr. Tongier said they had contacted Utah in September of 1999 and although they had complaints in the past, they were pleased at the present time. It was about the state withholding tax dealing with the employers.

He said that according to the documents they had received, the original product was due on a certain schedule and it was not received on schedule. When they did receive it, it did not live up to Mississippi's expectation so AMS attempted a revision. When this was not satisfactory they tried a third revision that was also not satisfactory so the state of Mississippi decided to go the legal route.

When Mr. Tongier was asked if Post Audit had looked into Kansas' contract with AMS, he said they had not as part of this audit but they had looked at it during an earlier audit. Asked if most of the states paid AMS on a ratio of increased collections, he said he didn't know but was sure they could find out.

Asked if any other states had expressed problems with scanning equipment, Mr. Tongier said they contacted other states who used scanning equipment but they rely on it less for an accurate reading the first time, and more as a way of creating an electronic document.

The Chair asked Mr. Tongier if they'd ever looked into the allegations of conflict of interest between the former Secretary of Revenue and AMS. Had they ever looked into that contract. He said they hadn't.

Representative Aurand asked that as far as employees at Revenue before and after, if there were projections that the Department had of a certain number of goals that all this automation was going to reduce staff. Mr. Tongier said that perhaps they did but LPA didn't look into that.

Representative Palmer asked that since accounts receivable seemed to be the biggest problem, are there any studies as to whether this has affected our revenue. Mr. Tongier said there were not.

Representative Nichols asked whether those states who were relying more on people and less on automation were having fewer problems, Mr. Tongier said they'd never asked that question.

Representative Minor asked if the fact that they were working with 14% less employees was the problem. Mr. Tongier said he didn't know but it could possibly be.

The question was asked as to if unclaimed checks go to the Treasurer's Office. Chris Clarke of Legislative Post Audit said they were kept in the Department of Revenue.

Representative Minor asked if there had not been a 14% reduction in employees if these problems could have been avoided. Mr. Tongier said he didn't know. There would have been more people there to possibly make the right decisions.

Representative Peterson asked in regard to the different reasons being given for inadequacies in the system,

CONTINUATION SHEET

where the bulk of this information might be. Mr. Tongier said they weren't able to prioritize any of their findings.

Representative Palmer asked if the allegations of checks being shredded had been investigated. Mr. Tongier said they did and they concluded that the Department's procedures in that area were appropriate, the system for looking for checks at the warehouse was put in place at the Department's direction, the likelihood of any checks actually being shredded was very small and any changes that might be made to reduce that risk even further probably would not be worth their cost and would probably contribute to delays.

The meeting adjourned at 10:30 a.m.

The next meeting is scheduled for Wednesday, January 19, 2000.