

OVERVIEW - INDIANA DEPARTMENT OF REVENUE:

The mission of the Indiana Department of Revenue (“Department”) is to administer the tax laws and collect tax revenues in a fair, consistent and efficient manner for Indiana taxpayers and provide accurate, timely, and reliable funding and information to state and local constituents. During fiscal year 2014, the Department served more than 4.2 million individual taxpayers and more than 225,000 business taxpayers collecting more than \$17 billion of revenue for the State of Indiana. The Department processed monthly business trust tax withholdings aggregating more than 7.2 million returns and payments annually. An additional 210,000 corporate income tax returns and 3.2 million individual tax returns bring the total of returns processed annually to 10.6 million. The Department’s stakeholder group includes individual and business taxpayers, legislators, counties and municipalities, multiple state agencies, more than 2,000 tax practitioners, and more than 35 interest groups (chambers, associations, etc.). The Department is organized into several groups broken down among four primary functional accountabilities – Legal, Operations, Compliance, and Business Support. Please refer to the organizational chart in Exhibit A for further detail.

A brief description of each of the four functional areas is as follows:

LEGAL DIVISION

- **Tax Policy** - Manages policy research, legislation and tax rulings
- **Legal** – Conducts tax hearings, manages tax protests, advises on tax rulings and general business matters; also supports the Attorney General’s office in matters before the Indiana Tax Court
- **Administrative Law Judge** – Addresses commercial motor carrier violations and certificate of convenience and necessity licensing

OPERATIONS

- **Special Tax and Support Administration** – Manages all special taxes (e.g., fuel tax and cigarette tax), Motor Carrier Services, and operates the returns processing center
- **Tax Administration** – Manages all aspects of individual and business taxes including taxpayer customer service
- **Taxpayer Advocate** – Manages complex tax issues needing specialized attention when other departmental channels have been unable to resolve a tax matter and fulfills the legislatively mandated taxpayer advocate responsibilities; also acts as the Department’s liaison with the Internal Revenue Service regarding federal data security

COMPLIANCE

- **Enforcement** – Performs and manages taxpayer audits including field audits, out-of-state audits, and desk audits, regularly conducts special compliance projects to help

ensure taxpayer compliance, and contributes to outreach training and educational programs to better prepare taxpayers to be tax compliant

- **Collections** – Manages all aspects of inbound and outbound collection efforts including outside collection agencies, sheriffs, etc., oversees fraud prevention and identity theft protection programs, conducts special investigations and provides support for civil and criminal prosecution of non-compliant taxpayers and perpetrators of fraud, oversees expirations and renewals of Registered Retail Merchant Certificates (RRMC), manages taxpayers subject to bankruptcy protection

BUSINESS SUPPORT

- **Finance** – Manages budgeting and accounting, cashiering and electronic funds transfer, procurement, internal audit, and financial planning and revenue analysis
- **Information Technology** – Manages divisional information technology platforms and applications including programming, hardware and software, oversees disaster recovery planning and data security protection
- **Public Relations** – Manages all internal and external communications, community outreach and education, market research and all form and tax booklet development
- **Human Resources** – Manages all employment issues, recruitment, training and succession planning

RECENT FOCUS & SUCCESS:

Implementation of enhanced imaging technology, advanced electronic filing mechanisms, an integrated telephone system, and comprehensive staff training in a customer focused service approach, have resulted in the Department being recognized as a national leader in service and efficiency among state departments of revenue. The Department has been able to achieve exceptional operational results while at the same time reducing headcount and direct expenses. As of July 2014, approximately 82% of 2013 individual tax returns were filed electronically and 91% of June's monthly business trust tax filings were filed electronically, compared to 79% and 84% respectively at this time a year ago. Relocation and consolidation of our returns processing center, Motor Carrier Services, and Special Tax processing groups have also yielded annual savings of more than \$600,000 and reduced our processing space needs by nearly one third.

Following significant reporting and allocation errors as previously disclosed, Deloitte Touche, LLP was engaged to conduct a comprehensive Controls and Procedures Audit. Their report, issued in December 2012, provided a guidepost for the Department to address internal control, governance, process, system, and procedure weaknesses or deficiencies. The Department has been aggressively implementing changes to address the 146 observations/recommendations made in their report. Through July 2014, the Department has implemented changes to address 53% of those observations/recommendations and an additional 27% of the recommended changes will be completed

by December 2014. The remaining observations/recommendations will require implementation of a fully integrated tax system which will require significant application system changes anticipated over the next five to seven years.

During the 2014 individual tax filing season, the Department implemented an Identity Theft Protection Program to reduce taxpayer identity theft and disbursement of fraudulent tax refunds. Final results are not yet confirmed but this pilot program has already yielded exceptional success with more than \$80 million of fraudulent refunds not being issued, thus saving money for the State and Hoosier taxpayers.

CHALLENGES:

Our primary challenges are:

1. **Recruiting, training, and retaining top talent**, particularly in highly skilled positions such as IT, enforcement, tax policy, legal and technical tax processing. Consistent with other state agencies, we have an aging workforce that has a high rate of persons that are retirement eligible currently or within the next three years. The transfer and retention of institutional knowledge, particularly in highly technical IT and tax statute related positions, creates a major challenge.
2. **Modernization of tax application systems**: Though we have begun the process of replacing and modernizing our tax application systems, our underlying central repository, or hub, remains Revenue Processing System “RPS”. RPS is now more than 25 years old with notoriously bulky, cumbersome protocols that only a select group of IT professionals can navigate. However, the risk of replacing the RPS application in one massive endeavor is too high requiring us to gradually manage the transition process over the next five to seven years.
3. **Protecting taxpayers and the State from fraud**: This past year we made great strides in identifying criminals perpetrating identity theft and refund fraud but we only scratched the surface. Though we learned a great deal from the effort this year, there is more work to be completed. We also know that the criminals are sophisticated and are continually enhancing their methods. The advent of increased electronic filing has accelerated the rate at which fraud may occur.
4. **Data security and disaster recovery preparedness**: The Department receives, processes and stores an incredible amount of data. Ensuring the safety and confidentiality of that data is increasingly difficult with hackers and others seeking to compromise that data. Investing in the infrastructure to protect the transfer of data is expensive, though often times not very satisfying because it may not directly enhance performance of day to day activities.

STRATEGIC PROGRAMS & INITIATIVES:

The leadership of the Department continues to focus on its top strategic priorities as defined in the *Roadmap for Indiana – Moving from Good to Great Strategic Plan* presented to Governor Pence in March 2013. These strategic priorities are:

- Filing simplification and minimizing regulatory burden, particularly for small businesses
- Accuracy and reliability of filing and reporting
- Compliance improvement to create a level playing field
- Team development to ensure sustained success

For each of these four strategic priorities, the Department has identified key specific initiatives which will be the focus for this year and on into fiscal years 2016-2017.

Filing:

1. Upgrade of INTax platform including capability of filing FAB and CIT taxes electronically
2. Increase electronic filing capabilities to include corporate income tax returns
3. Work with the Governor and legislature to pursue tax simplification as discussed in the Governor's Tax Simplification and Competitiveness Conference held June 24
4. Complete regulation and commissioner directives review pursuant to the Governor's Cut Red Tape initiative

Accuracy:

1. Address remaining Deloitte Report observations/recommendations
2. Support the Governor's MPH Project and OMB Revenue Dashboard Project
3. Following feasibility study, identify long term strategy for implementation of an integrated tax system replacing the multiple disparate systems currently being utilized
4. Address data security and disaster recovery concerns
5. Complete implementation of new tax system for alcohol, cigarette, and Other Tobacco Products (OTP)
6. Implement a document storage center of excellence that can be utilized across all State agencies to improve document storage and reduce space and cost

Compliance:

1. Strengthen identity theft and refund fraud protection
2. Enhance W-2 verification tools

Team:

1. Implement formal succession planning program for all operating groups with the Department
2. Partner with SPD to improve recruiting & job posting processes, accelerate turnaround time, and increase pool of candidates
3. Complete comprehensive review and documentation of job descriptions and organization charts
4. Broaden personal development training and incorporate career planning in annual performance review process
5. Improve on-boarding and exit processes

ACCOMPLISHMENTS & OBJECTIVES:

FY 2014 Key Performance Indicators

The following highlights our Key Performance Indicators and actual performance for FY 2014:

- Revenue per \$1 of Cost Green: \$250 Yellow: \$230
 - Actual: \$245 - During FY 2014 the Department collected \$17.3 billion of revenue and expended \$71 million in operating and capital dollars; expenditures included \$6.5 million related to the RSI Modernization Project and \$4 million for the identity theft protection pilot program; we actually expected to fall as low as \$230 so were pleased with the actual results for the year in the mid \$240's

- Percent of Customer Calls Handled Green: 85% Yellow: 80%
 - Actual: 88.6% - During FY 2014 the Department handled 753,000 calls compared to 620,000 in the prior year, a 21% increase; prior year results were at 75.8% with significant improvement coming from enhanced staffing, reorganized managerial leadership, and implementation of disciplined "All-in" concept

- Dollars Collected from Non-compliant Taxpayers Green: \$195M Yellow: \$165M
 - Actual: \$223M – This is an increase of \$58 million or 35% over the prior year and reflects reorganized leadership, enhanced AR reporting, improved collections procedures, and consolidation of our third party collection efforts

Other key achievements include:

- Trust tax collections using INtax online platform grew to \$6.8 billion compared to \$4.6 billion in 2012, an increase of 33%; 91% of these taxes were reported and remitted electronically in 2013
- INtax now has more than 225,000 registered businesses and is growing rapidly
- Completed wind-down of Inheritance Tax Group with residual work being absorbed in other areas of the Department
- Led planning and execution of Governor's Tax Simplification and Competitiveness Conference which sets the stage for future legislative changes
- Identified 33,000 cases of identity theft or fabrication and stopped more than \$30 million of fraudulent refunds from being paid by the State
- Eliminated 70 standalone tracking or processing systems that were out of warranty or support by vendor
- 95% recommend rate for INfreefile users

Progress on Strategic Priorities

The Department continues to make significant progress in executing its *Moving from Good to Great Strategic Plan* adopted in 2013. Progress on certain key strategic priorities during the last year include:

1. Enhanced INtax Portal capabilities and improved communications with business taxpayers, improved filing compliance and reduced Best Information Available (BIA) notifications by 25%
2. Played active role in defining requirements and selecting vendor for Business One Stop Portal project
3. In support of Governor's Cut Red Tape initiative, reduced or eliminated 30 pages of regulations or administrative burden for taxpayers
4. Eliminated or replaced 70 stand alone processing applications that were not properly supported or being utilized
5. Addressed disaster recovery concerns by completing Continuity of Operations (COOP) plan and conducted desk top disaster simulation exercise
6. Adopted "agile" development protocol across all IT programming applications
7. Enhanced data security through additional Oracle encryption installations
8. Completed phases I & II of RPS to PeopleSoft integration
9. Implemented Assurance and Advisory Services group to provide effective internal audit and review of operations and enterprise risks
10. Implemented new AR reporting to strengthen collection capabilities
11. Executed pilot identity theft and refund fraud program with third party vendor
12. Strengthened staff and capability of Special Investigations Unit
13. Executed exhausted liability project resulting in more than \$12 million of collections from old delinquent tax accounts
14. Enhanced offerings and increased participation in personal development and training programs for all agency employees

REQUESTED FUNDING FOR PROGRAM INVESTMENTS

The Department would like to propose a program investment in Identity Theft Protection, which will provide a significant return on investment by increasing tax revenue collections for the state.

A pilot program using third party assistance from Lexis Nexis was implemented during the 2014 tax filing season. This yielded outstanding success. This program is being continued in FY15 with budget augmentation along with department provided funding. The initial project increased our awareness of refund fraud and identity theft perpetrated against us and proved that increased and permanent resources will significantly increase our ability to prevent such fraud. This will result in significant savings for the state from reduced disbursement of fraudulent refunds. The proposed program investment will provide for permanent staffing in our refund fraud group, increase staffing in our special investigations group pursuing these criminals, and also provide for additional third party contracting that will improve our ability to identify fraud and reduce fraudulent refunds. This program investment will also allow us to

increase the group's scope to also pursue credit and deduction fraud which is also a major problem of compliance.

CLOSING

Thank you for your consideration of our 2016-2017 Biennium Budget Request. We have made great progress in addressing the risks and deficiencies previously identified and are now poised to pursue aggressive programs to increase tax revenue and improve our overall operational capabilities. We believe the proposed program investments are critical and will yield rapid payback to the State of Indiana.

EXHIBIT A - ORGANIZATIONAL CHART:

