DEPARTMENT OF REVENUE
TAX PROCESSING
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Report Highlights

Dianne E. Ray, CPA
State Auditor

Department of Revenue
Department of Personnel & Administration

PURPOSE

Assess the Department of Revenue's (the Department) tax processing system, called the "tax pipeline," for opportunities to increase efficiency and effectiveness, reduce state expenditures, and produce greater value for taxpayers and the State of Colorado.

BACKGROUND

- The Department is statutorily responsible for managing Colorado's tax system, including processing tax returns, depositing tax payments into the State's treasury, issuing tax refunds, distributing sales tax money to the appropriate entities, and resolving taxpayer problems.
- Since 1982, the Department has procured data entry and imaging services for tax documents from the Department of Personnel & Administration.
- The Department collected $10.2 billion for all taxes in Fiscal Year 2011 and annually processes about 4.3 million paper tax documents and 2.5 million checks. Operating the tax pipeline costs the Department approximately $4.2 million per year.

OUR RECOMMENDATIONS

The Departments of Revenue and Personnel & Administration should:

- Determine which Department should implement new technology for the tax pipeline and eliminate positions no longer needed.
- Maximize the Department of Revenue's use of the Department of Personnel & Administration's Division of Central Services for outgoing mail processing and warrant printing, and reallocate or eliminate staff no longer needed.
- Establish a plan and specific performance measures for increasing e-filing and e-payment rates, including seeking additional statutory e-filing and e-payment mandates.

EVALUATION CONCERN

The tax pipeline involves highly inefficient and costly manual processes that could be improved with the implementation of newer and more sophisticated technology.

KEY FACTS AND FINDINGS

- The tax pipeline relies heavily on manually intensive processes that can take weeks to complete. Technology exists that could automate most of the processes in the tax pipeline, from opening and sorting paper tax documents that arrive in the mail to imaging those documents, extracting data from the documents to upload to the Department's tax systems, and processing checks for deposit.

- Implementation of new technology in the tax pipeline would improve efficiency and allow for reductions or reallocations of full-time-equivalent staff.

- The Department is not fully utilizing Central Services within the Department of Personnel & Administration, as required by statute, for services including: (1) processing outgoing mail, (2) processing warrants (checks), and (3) printing tax-related documents.

- Additional action could be taken to maximize taxpayers' use of e-filing and e-payment in Colorado. Current state law leaves it up to the taxpayer, in most cases, to choose whether to file and pay taxes electronically. The Department could achieve greater efficiencies and cost savings by seeking statutory authority to mandate e-filing and e-payment for other types of taxes that are not currently required to be filed or paid electronically.

COST SAVINGS

In total, we were able to identify potential annual cost savings of at least $2.1 million, including savings of $574,000 for implementing new technology and updating processes in the tax pipeline, and $1.5 million if the Department can take additional actions that encourage taxpayers to increase their use of e-filing.