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TESTIMONY TO THE  
HOUSE COMMITTEE ON FINANCE  
For Hearing On  
April 15, 2009  
11:00 a.m., Conf. Rm. 308

By  
SANDI YAHIRO  
DEPUTY DIRECTOR, STATE DEPARTMENT OF TAXATION

**HCR 262**  
**Requesting the Auditor to Conduct a Management Audit of the**  
**Delinquent Tax Project of the Department of Taxation**

CHAIR OSHIRO AND COMMITTEE MEMBERS:

My name is Sandi Yahiro and I'm the Deputy Director of the Department of Taxation and the Project Director for the Delinquent Tax Collections Initiatives.

HCR 262 proposes that the Auditor conduct a management audit of the Delinquent Tax Project of the Department of Taxation (DOTAX). **We believe a management audit is unnecessary** for the reasons indicated below.

History of Relationship with DOTAX and Vendor

In 1999, DOTAX entered into an innovative benefits funded contract with American Management Systems, Inc. that later became CGI Technologies and Solutions, Inc. and together created the ambitious Integrated Tax Information Management System (ITIMS) project. This was a 5-year endeavor for DOTAX that helped modernize our aging technical infrastructure, created new business processes and allowed us to reallocate our staffing to better serve the citizens and taxpayers. ITIMS made it easier for taxpayers to comply with the tax laws of the State and reorganized DOTAX to be more taxpayer-centric, which has been clearly recognized by our taxpayers. We have increased the public's access to service and information, and have provided taxpayers and our employees with the tools and processes that help to ensure that taxpayers are treated fairly and consistently. At the end of this 5-year Project, DOTAX had integrated collections, net income, and business taxes collectively into one application, which allowed the majority of the tax clearance functionality to be automated and it allowed our

customer service representatives to provide One-stop service to taxpayer inquiries. Later, the ITIMS system was further enhanced by integrating our legacy cashing system and a national award winning data capture/imaging system known as ITIMS Imaging System (IIS). The IIS application provides state-wide access to imaged tax returns and cleared over 3,500 sq. ft. of vital floor space that was previously utilized to house archive tax returns. Meanwhile, ITIMS allowed the complex County Surcharge tax (Act 247 SLH 2005) to be implemented within an astonishing six months.

#### Current Delinquent Tax Collections Contract with CGI

In January 2008, DOTAX entered into another contract with CGI to collect new delinquent taxes. The new contract is paid on a contingent fee basis, whereby CGI receives 1/3 of all new delinquent taxes collected up to a cap of \$25 million subject to the State's realization of \$75 million in total additional tax collections. The contract is broken up into 2 phases. Phase I involves 6 new initiatives, along with hours for tax support and design changes. These initiatives are: 1) Registered Business Non-Filer, 2) Integration of Miscellaneous Tax Types and Automated Compliance Check, 3) Self Service Payment Agreements Through IVR, 4) Federal-State Compare for Office Audit, 5) Enhanced Audit Data Warehouse, 6) Audit Review of Corporate Income Tax Refund and Amended Returns. Phase II involves 12 initiatives, along with hours for tax support and design changes. These initiatives are: 1) Automated Address Updates, 2) Audit Case Management Enhancements, 3) Additional Reports to Support Audit, 4) Risk Modeling, 5) Electronic Data Sources – Audit Data Warehouse, 6) Customer Relationship Management Implementation, 7) Virtual Call Center & Automated Phone Calls for Collections, 8) ITIMS Server/Disk/Workstation Capacity, 9) System Software Upgrades, 10) Personal Income Tax Fraudulent Refund Detection, 11) Collections Business Process Improvements, and 12) Tax Processing Business Process Improvement. The contract is constructed so that CGI gets paid only after new delinquent taxes are collected.

As of March 31, 2009, the Registered Business Non-Filer initiative under Phase I has brought in approx. \$35 million in new delinquent taxes, of which the State has realized 2/3 or \$ 23.3 million. This amount exceeds the collection amounts originally estimated for the project and is expected to continue bringing in new monies to the State. Such results should dispel any inference that the project is not working as effectively or efficiently as it should, or whether it is in the best interest of the public.

Following the success of Phase I collections, DOTAX and CGI are now working on computer program adjustments in preparation for beginning work on Phase II initiatives. Due to changed conditions affecting the State's economy since the development of the contract, DOTAX and CGI are working on revisions to the original schedule to prioritize the most important initiatives from a dollar-savings standpoint based on our current situation. There is a likelihood the contract will be modified with some initiatives remaining and others re-scoped as collection priorities and directions are reassessed. Contract modification discussions are currently taking place.

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**A management audit will find that the original purpose and intent of the enhanced revenue collection initiatives are being realized and is therefore unnecessary.** More importantly, we are concerned that an audit will be time consuming, and will slow down the work of identifying and collecting additional taxes owed the State since attention and resources would be diverted to working with the audit team, rather than remaining focused on the contract and collection requirements. Allowing DOTAX and CGI to concentrate on delinquent tax collections is of primary importance for the overall success of the project and clearly in the best interest of the State, especially in these fiscally challenging times.

If the Legislature believes it is important to have regular updates on the status of this project, then I would be glad to make myself and members of the project team available to periodically update this committee and individual members of the House and Senate.

Thank you for this opportunity to provide comments.



## HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

AFSCME Local 152, AFL-CIO

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The Twenty-Fifth Legislature, State of Hawaii  
House of Representatives  
Committee on Finance

Testimony by  
Hawaii Government Employees Association  
April 15, 2009

H.C.R. 262 -- REQUESTING THE  
AUDITOR TO CONDUCT A  
MANAGEMENT AUDIT OF THE  
DELINQUENT TAX PROJECT OF THE  
DEPARTMENT OF TAXATION.

The Hawaii Government Employees Association supports the purpose and intent of H.C.R. 262, which calls for a management audit of the delinquent tax project of the Department of Taxation. Considering the significant cost of the contract thus far, and the potential to cost an additional \$15 million for the project's next phase, the Legislature must determine whether the contract is achieving its stated objectives in a cost effective manner.

Civil service employees within the Department of Taxation have informed us that the contractor's performance is poor and the system crashes frequently. We are especially concerned about expensive state contracts with private firms for work that could be performed in-house by state employees. Why should the state be paying contractors as much as \$200 per hour for services that are of poor quality?

The track record of privatizing all or a portion of a state's information technology program is not good. In November 2008, disturbing news came out of Texas and Indiana regarding contracts that those states had entered into with IBM. Numerous complaints following poor service in both states, as well as significant contract breaches in Texas, have led state officials to halt the expansion of privatization under the contracts until thorough reviews have occurred and existing problems have been resolved. Virginia's Joint Legislative Audit and Review Commission released a report in December 2008 stating that Virginia's \$2 billion transition to privately run information technology services has been difficult and has not yet saved the taxpayers money.

We believe there are millions of dollars of unnecessary contracts with private contractors, not only in the Department of Taxation, but also in other departments. This

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is unacceptable at any time, but especially during a serious recession. Consequently, a management audit of the delinquent tax project is definitely warranted.

Thank you for the opportunity to testify in support of H.C.R. 262.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Nora A. Nomura", with a long horizontal flourish extending to the right.

Nora A. Nomura  
Deputy Executive Director



# KO'OLAUPOKO HAWAIIAN CIVIC CLUB

April 13, 2009

TO: Rep. Marcus Oshiro, Chair  
And Members  
House Committee on Finance

FROM: Mahealani Cypher, President  
Ko'olaupoko Hawaiian Civic Club

SUBJECT: HCR262, Requesting the Auditor to Conduct a Management Audit  
Of the Delinquent Tax Project of the Department of Taxation

Aloha mai kakou.

The Ko'olaupoko Hawaiian Civic Club strongly supports HCR 262, calling for a management audit of the delinquent tax project of the State Department of Taxation.

In this time of fiscal constraints, it is vital that the Legislature, the State Auditor, and the State Administration take all necessary steps to eliminate unnecessary government contracts that do not enhance productivity of our government agencies. In addition, this kind of government waste can lead to reduced resources to fund other more vital services whose budgets have been severely impacted by the economic downturn.

Mahalo for the opportunity to share our mana'o.

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