



STATE OF MONTANA CASE STUDY

DEPARTMENT OF REVENUE • DEPARTMENT OF JUSTICE



BACKGROUND

The Montana Department of Revenue (DOR) serves more than 700,000 taxpayers, administering taxes that annually generate in excess of \$2.5 billion in revenue for the state and for local governments. DOR has more than 600 employees located in offices across all 56 Montana counties.

The agency administers 38 taxes, including the valuation and assessment of property taxes. Without a general sales tax, the greatest tax revenue for the state comes from individual and corporate income taxes.

The Montana Department of Revenue is also charged with enforcing state laws governing the control, sale, and distribution of alcoholic beverages. In this capacity, DOR issues liquor licenses, administers taxes on alcoholic beverages, and operates a warehouse for distributing liquor to retailers throughout the state.



Dan Bucks, Montana Department of Revenue Director

THE CHALLENGE

In the late 1990's, DOR faced a common problem – how to modernize many non-integrated and inflexible legacy systems. In 1997, the state chose a “design and build” strategy for an integrated tax system to support all DOR tax types. DOR was also given administrative control of unemployment insurance tax, which was to be included in the new system.

Phase I of POINTS (Process Oriented Integrated System), which included unemployment insurance and employer withholding, was implemented in 1999. In early 2000, work began on Phase II, which included individual and corporate income taxes.

Soon, data integrity and stabilization issues began to emerge. This created many day-to-day problems such as improper taxpayer account receivable balances, issuance of duplicate tax bills and refunds, and a need for significant staff intervention and “workarounds”. Taxpayers, tax preparers, policymakers, and agency staff were losing confidence in the system.

From the spring of 2000 to the late fall of 2002, various efforts to improve data integrity and stabilize the system were undertaken. Despite these efforts, the fiscal condition of the state was called into question due to a receivable balance discrepancy of approximately \$200 million in employer withholding. Also, the federal government became concerned that Montana was not making timely and accurate deposits to the Unemployment Insurance Trust Fund.

The system became the subject of negative press and the Governor and Legislature became concerned.

In April of 2003, after spending \$39 million, the Montana Legislature directed DOR to stop work on POINTS, find a replacement system, return administrative responsibility for unemployment insurance tax to the Montana Department of Labor, and shut down the failed system.

Helena Independent Record newspaper article, 19-Dec-2002

State Revenue Department Computer System

The Legislative Audit Committee recommended the administration begin searching for a replacement system, rather than counting on the flawed POINTS system as a permanent tool for the Revenue Department. “Enough is enough,” said Sen. Corey Stapleton, R-Billings. “The Legislature has lost confidence in POINTS and it has greatly affected the ability of the department to perform its primary function.”

Helena Independent Record newspaper article, 6-Feb-2003

Pulling the Plug on POINTS

Director Kurt Alme told the Senate Taxation Committee the agency wouldn't oppose Senate Bill 271, by Sen. Corey Stapleton, R-Billings, that calls for replacement of the first phase of the department's Process Oriented Integrated System, or POINTS I.

MEETING THE CHALLENGE

DOR, the Legislature, and the state Chief Information Officer believed POINTS should be replaced by a system with a proven track record in another state. Plans were set in motion to acquire a commercial off-the-shelf (COTS) solution to replace POINTS. A multi-tiered governance structure was put in place to oversee the new project. This included the state CIO's office and several legislative committees to which DOR and any new vendor had to report on a regular basis.

The Legislature also required that the base system and at least one tax type be fully implemented on the replacement system by February 1, 2005.

In June 2003, the state issued an RFP for a COTS solution to form the basis for the Integrated Revenue Information System (IRIS). The previous project's lack of success motivated a measured approach to IRIS. Rather than requesting a proposal to implement all tax types, the initial request was to

implement a system for a few tax types – lodging facility tax, oil and gas severance taxes, and employer withholding. Functions were to include taxpayer registration, generation of forms and correspondence, return issue and processing, payment processing, taxpayer and revenue accounting, tax compliance, case management, and report generation.

The state awarded the project to Fast Enterprises to implement their GenTax® solution.

IRIS Phase I

The contract for IRIS Phase I was signed in August of 2003 and work began immediately. During contract negotiation, DOR and Fast agreed on the inclusion of two additional taxes in Phase I – rental vehicle tax and cigarette tax. Including these taxes would provide further business benefits to DOR without materially increasing project risk.

The project team chose to implement the rental vehicle tax in the first rollout to gain a “quick win”. The rental vehicle tax had been enacted into law in the previous legislative session and went into effect on July 1, just weeks before the contract was signed. Within three months of the project start, GenTax® was live and processing the new rental vehicle tax. This “just-in-time” delivery saved DOR time, money, and inconvenience while achieving a high degree of responsiveness to the legislated schedule.

The remaining Phase I taxes were delivered in 3 rollouts over the course of 11 months. Keys to the on-time and on-budget completion of Phase I were:

- Support by top DOR management.
- Commitment by DOR to assign staff with extensive business knowledge to make decisions related to the project and rethink business processes.
- Establishing strong supervisory-level participation in testing and training, creating many “super users”.
- A focus on business process rather than technology, since the product and the technology were already tested and proven in a comparable revenue agency.
- A multiple rollout implementation schedule, providing a quick proof of concept and building on the success of each rollout.
- Organization and communication plans which included:
 - Assigning a project champion from within senior management.
 - Ensuring regular and consistent communication between business experts and the project team.
 - Participation in configuration and verification sessions by an extended user group of subject matter experts.
 - Conducting regular system functional overviews and “show as we go” demonstrations.
 - Fostering support from external stakeholders.



Helena Independent Record newspaper article, 24-May-2004

Computer System Pleases Martz

Installation of Montana's new tax accounting computer system is ahead of schedule, officials with the Idaho software maker told Gov. Judy Martz on Friday.

Fast Enterprises of Boise has already put Montana's rental vehicle, accommodations, and cigarette taxes into the new GenTax system. The cigarette tax was finished at the end of March, one month earlier than originally scheduled.

Martz said she was pleased with the progress. “You've delivered what you said you would and that's what we like,” Martz said.

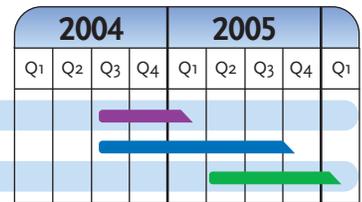


(from left to right)

Larry Logan, Bureau Chief, Information Technology; Terry Hutton, Bureau Chief, Processing
John Morrow, Unit Manager, Application Resources

IRIS Phase II

June 2004 brought the IRIS Project to a significant milestone - a successful migration of employer withholding from POINTS to GenTax® and the completion of IRIS Phase I. DOR's vision of implementing a modern integrated tax processing system was finally becoming a reality. With the approval of the project's executive and legislative oversight committees, DOR negotiated the Phase II contract, to include corporate and individual income taxes and a liquor distribution management system.



IRIS Phase III

Phase III, which ran from January 2006 through June 2007, was ambitious. All remaining DOR taxes, fees, and miscellaneous revenue sources were migrated into IRIS, allowing most of the remaining DOR legacy systems, including POINTS, to be retired. Phase III also brought the administration of unclaimed property into GenTax®. In addition, DOR partnered with the Gaming Control Division (GCD) of the Montana Department of Justice to implement the administration of GCD programs in IRIS. The Department of Justice now uses GenTax® to issue liquor and gambling licenses, and to collect taxes on gaming devices.

Helena Independent Record newspaper article, 3-Jan-2007

New Tax Computer System Tremendous Success

The old computer program cost the state millions before legislative whistle blowers pulled the plug and launched plans for a new system which took a few years to develop. "That system, called IRIS, is now fully operational and running the state's day-to-day tax operations", said Revenue Director Dan Bucks. "IRIS is a tremendous success. It was developed on time and on budget."



(from left to right)
Lee Baerlocher, Bureau Chief, Business Tax and Valuation
Russ Hyatt, Bureau Chief, Accounts Receivable & Collections
Shona McHugh, Bureau Chief, Income and Withholding Tax

"Using the GenTax Collections Manager to assign risk factors for case workload balancing and (implementing) automated Statements of Account, have increased the account receivable collection revenues by \$17 million or 41% in the two years since GenTax has been in production in Montana. In addition, we have seen a three-fold increase in the levies we have issued."

Russ Hyatt, Accounts Receivable and Collections



INNOVATIONS FOR MONTANA

GenTax and Gambling in Montana

The Gambling Control Division (GCD) of the Montana Department of Justice regulates all forms of gambling in the state except for lottery and horse racing. The GCD is also responsible for collecting gambling revenue for state and local governments. Under Montana law, a liquor license is a prerequisite to a gambling license, so the GCD is the point of contact for obtaining certain liquor licenses. GenTax® was implemented for the GCD as part of Phase III.

"This GenTax® application provided significant benefits by allowing for paperless licensing for gambling and liquor licenses. The automation of card dealer annual renewal notices has reduced the 60 days it took to process a dealer license to less than 14. Automated noticing has also streamlined permits for more than 18,000 gambling machines. In addition the system brought with it significant analytical reporting capabilities."

Gene Huntington, Gambling Control Division Administrator

Regarding the implementation process, Gene commented that, *"(Fast has) exceeded all our expectations. ...on time and on budget through the whole development and implementation process."*



Gene Huntington, Administrator, Gambling Control Division, Department of Justice

Unclaimed Property

Previously, DOR had no way to identify potential owners of unclaimed property - the owners had to become aware of the property themselves and initiate all inquiries. DOR now has the capability to identify potential owners of unclaimed property by cross-matching taxpayer names, Social Security numbers, and addresses. When a match is detected, an unclaimed property account is generated in GenTax®. The possible owner can be notified and the resulting claim can be created and processed electronically.

The GenTax® Unclaimed Property subsystem has reduced DOR's time to process a claim from two to three months to as little as two weeks.

Taxpayer Access Point (TAP)

Prior to 2008, DOR had a limited internet presence and limited capability for taxpayers to file and pay online. The high taxpayer demand for these services led to a decision to implement Taxpayer Access Point (TAP), Fast's solution for taxpayer self-service over the Internet. TAP provides secure e-government functions for taxpayers to manage their accounts and perform functions such as registering to use TAP, filing returns online, making payments, updating contact information, revising names and addresses, and viewing account summaries and transaction lists.

Implemented incrementally over a two-year period, Montana's TAP now offers general registration, inquiry, name and address maintenance, and the ability for taxpayers to authorize third parties such as tax preparers access to their accounts for almost forty different tax and revenue programs. For 2009, taxpayers used the new internet application to file more than 25,000 returns totaling \$47.4 million in tax and claiming \$4.3 million in refunds.



Rochelle Stewart, Bureau Chief, Citizen Services
Jami Davis, Management Analyst, Business and Income Taxes

Liquor Inventory Control

During 2005, Fast worked with DOR on a unique initiative to expand GenTax® to administer the state liquor warehouse. This was accomplished with the GenTax® Inventory Manager which allows the agency to track tax-related physical inventory, such as cases of liquor or cigarette tax stamps. Inventory Manager was implemented in January 2006 as the Liquor Warehouse Management and Tax System for the Liquor Control Division (LCD). With this implementation, GenTax® now provided billing and inventory management for alcohol distributed from the state-owned liquor warehouse to privately-owned stores throughout Montana.

One of the most visible benefits to LCD was the ability to retrieve data through reports and queries. Information that was once printed and stored in filing cabinets is now easily accessible, saving time and reducing paper use. All aspects of the distribution process are reflected in one integrated system including accounts payable, accounts receivable, inventory management, and sales reporting. Users can obtain in GenTax® all information related to a customer, reducing confusion over when and how orders and payments are posted to accounts.

GenTax® also allows LCD to offer additional ways for liquor stores to submit information. Previously submitted primarily by fax, orders and other sales data can now be submitted electronically in Microsoft Excel. Combined with TAP, Montana's stores now have more modern and efficient means to submit and retrieve pertinent operational information.



“GenTax is much more user-friendly than (our previous application). Users have much greater confidence in the knowledge that you can follow a transaction through the system and that it affects sales, financials, and inventory as it should.”

Shauna Helfert, Administrator, Liquor Control

BENEFITS

Enhanced Discovery

DOR implemented the GenTax® Discovery module, delivering substantial increases in revenue generated from compliance activities. Discovery is used to identify and score non-compliant individuals, businesses, and other entities through the use of data in GenTax® and data in the GenTax® Data Warehouse.

“CP 2000 was a manual spreadsheet-based process, but is now online with GenTax® Discovery. This has increased productivity, which results in increased revenue. In the first seven months of using Discovery, we increased CP2000 assessments by 80% and collections by 63%. In 2008, we expanded the implementation to include over 21 discovery programs of which 6 are actively being worked. These discoveries are generating approximately \$125,000 per month. We expect these statistics to grow as more resources become available to work the cases.”

Gene Walborn, Administrator of Business and Income Tax Division

Increased Collections

The risk analysis and case management features of GenTax® are serving to streamline and automate the pursuit of routine debt while directing officers to focus on complex and high risk cases. Tools such as the Liens Manager, the Payment Plan Manager and the Bankruptcy Manager bring both higher productivity as well as consistency in agency practices. Between fiscal years 2006 and 2008, there was a 45% increase in collections, from \$40 million to \$58 million. During the same period, office audit collections increased 46% from \$28 million to \$41 million.

Timely, Accurate Revenue Projections

The Legislative Fiscal Division has access to GenTax® data and can now obtain more timely revenue figures on which to base more accurate revenue projections.

"Having on-line access to tax information in GenTax® has given us the ability to view revenue

"The association between the Montana Department of Revenue and Fast Enterprises has developed into more than just the normal client/vendor relationship. We have a long-term partnership, working together to improve the business processes of the department with current technology."

Margaret Kauska, Administrator, Information Technology and Processing

collections in the immediately preceding month. This makes our job of estimating state revenues significantly easier because the data is more current and reliable."

*Terry Johnson, Principal Fiscal Analyst
Legislative Fiscal Division*

Speedy Implementation

In April 2007, the State Legislature enacted a one-time property tax refund program. In two months, the project team was able to configure a new tax type in GenTax®, create a new form, analyze databases to determine who would be eligible, mail forms to eligible filers, process electronic and paper forms, and issue refunds.

Improved Customer Service

Customer service representatives are providing better and faster service to taxpayers who call DOR.

"The time our customer service representatives spend on the telephone when a taxpayer calls the Department has been significantly reduced because GenTax® provides the capability to view all correspondence sent to a taxpayer, payments made by

a taxpayer and where they were applied, and the entire debt owed by a taxpayer for all tax types in the Department."

Rochelle Stewart, Citizen and Resource Management Division

Improved Productivity

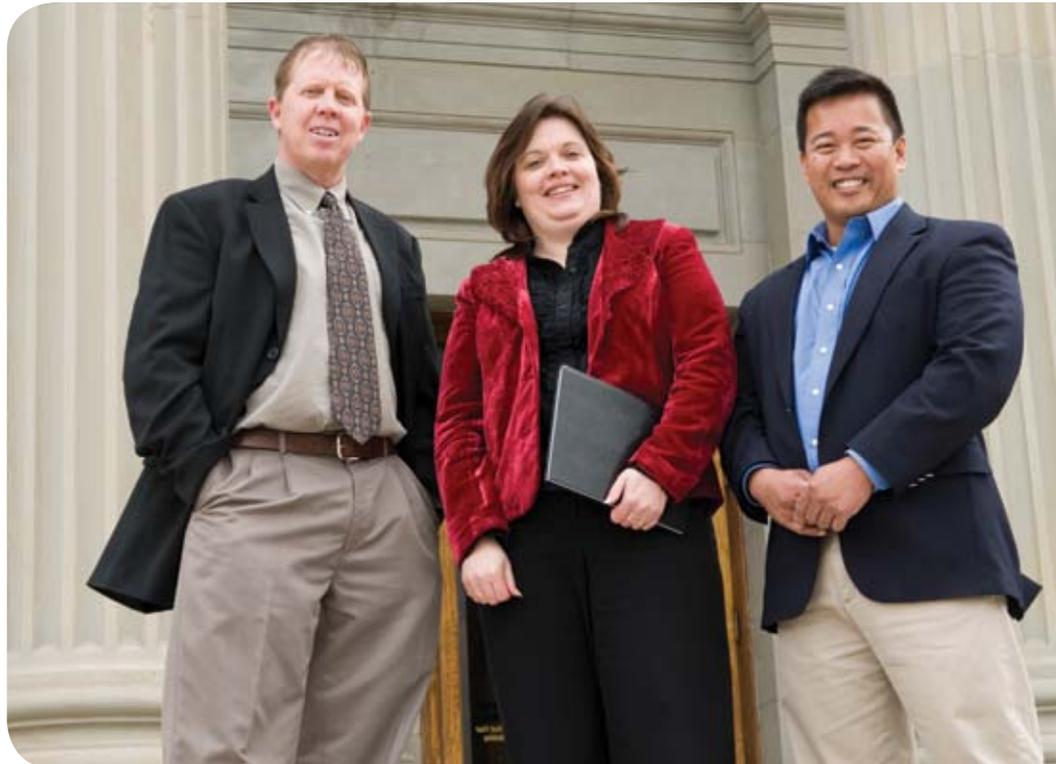
GenTax® presents users with an integrated view of a taxpayer's information across all tax types and business areas.

"Retrieving the data from GenTax® has proven to be much more straightforward than the legacy system, which was more of a data jail. The ability for online reports, queries, and data marts has greatly improved the speed and accuracy of reporting, especially during the legislative session."

Gene Walborn, Administrator of Business and Income Tax Division

Enterprise Application

Since August 2003, DOR and Fast have worked in partnership to establish GenTax® as the agency's enterprise application, providing a standard delivery platform for addressing all existing and new business and functional requirements.



*(from left to right) Steve Austin, Administrator, Citizen Services & Resource Management
Margaret Kauska, Administrator, Information Technology and Processing; Dennis Manalo, FAST Project Director*



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