

Ohio Department of Taxation

Tax Appeals Process Study Kaizen Event Report Out

March 7-11, 2011

Team New TAD

'Timely Accurate Disposition'



The Team

- **John Werkman, Attorney, TAD**
- **Carolyn Fox, Attorney Supervisor, TAD**
- **Brad Marshall, Assistant Administrator, Compliance**
- **Matt Hollis, Attorney Supervisor, DTE**
- **Tonya Sekerak, Management Analyst Supv, Compliance**
- **Scott Howard, Lead Agent, Compliance**
- **Chris Kantzer, Attorney Administrator, TAD**
- **Charlie Rhilinger, Executive Administrator, OCC**
- **Marge Brewer, Executive Administrator, OCC**
- **Rich Martinski, Office of Quality, ODOT**

Facilitators: Bill Demidovich, Steve Wall, Gloria Calcara, Sue Kirby,
Marina King

Background

The Department of Taxation receives over 10,000 petitions each year appealing tax assessments. The petitions are received through multiple locations and have several different work processes to resolve the petitions. The majority of petitions are processed either through the Compliance or Tax Appeals division. Beginning in 2006, a policy decision was made that changed the way compliance cases were processed and resulted in an influx of cases to the Tax Appeals division. Over time, TAD's caseload has increased and a backlog has developed. The traditional caseload of TAD is not getting the attention that was given in the past, and some cases are becoming old as a result. The caseload issues are twofold: the volume of cases received by TAD is increasing and the cases are aging due to the inability to keep pace with the incoming cases.

Reasons for improving this process

- Tax petitions are received through multiple mail locations and are transferred to appropriate divisions.
- There are differing processing policies and duplication of functions across divisions (e.g. mailing; multiple levels of approval).
- The tax caseload has increased tenfold in the last 4+ years, a backlog has developed, and cases are aging as a result.
- There are multiple steps where delays and storage issues are routine and cause excessive lead time.
- We want to improve customer relationships in general.

Scope of Event

The process begins when a petition or claim on a tax dispute is received and ends when either a Final Determination or a Corrected Assessment is issued.

Out of Scope

Areas that will not change as a result of the Kaizen event are:

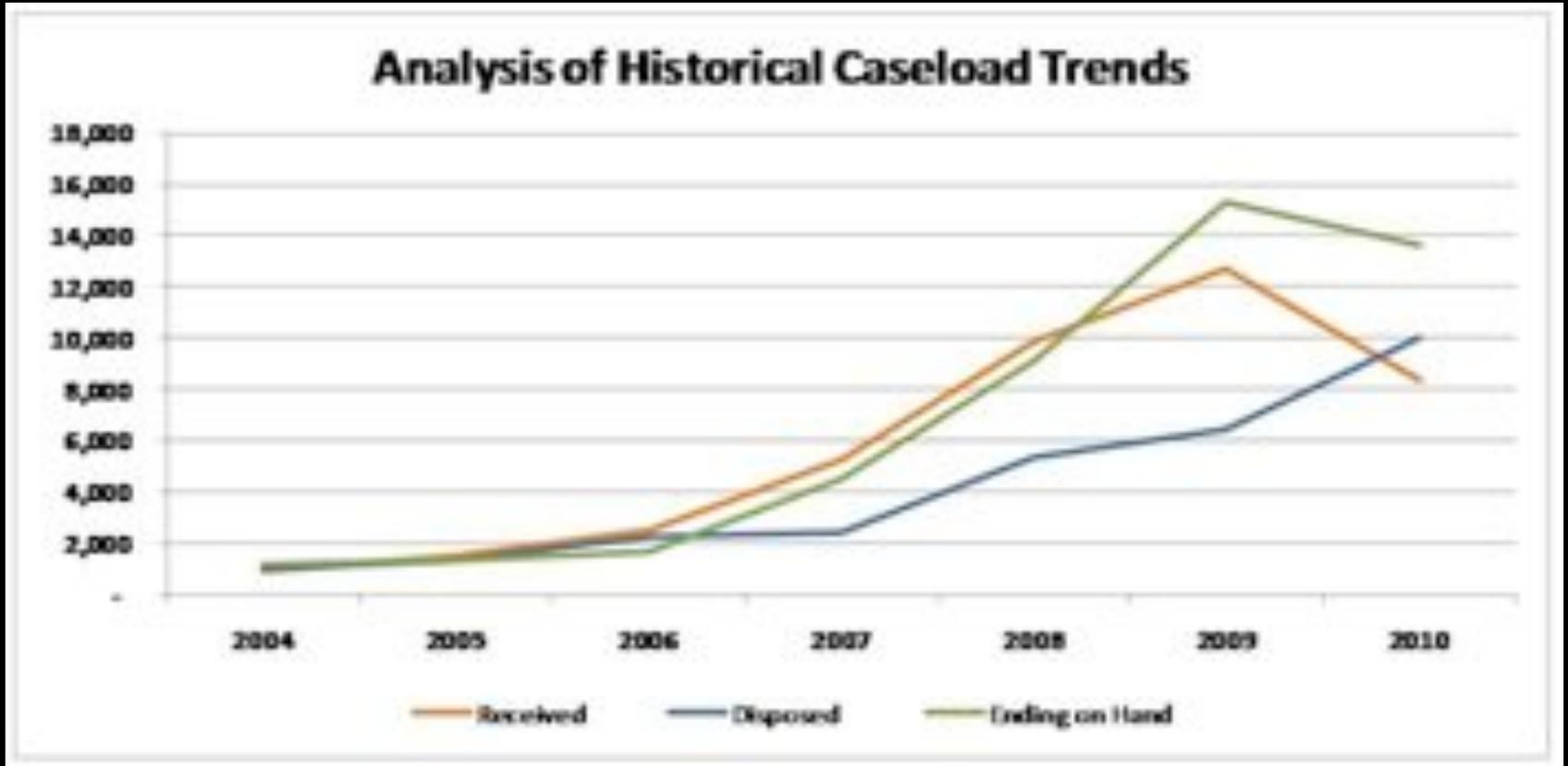
- Hearing process, Final Determinations, Corrected Assessments, post Final Determination appeals processes and unexpected delays on Taxpayer's side.
- No one loses their job because of the Kaizen event; no legislative changes; no dollars
- No IT solutions or changes in billing and assessment processes.

Goals & Objectives

- Streamline administrative review process and reduce total lead time by 50% or more (Establish processing time standard).
- Reduce case life (age) by 50% or more.
- Eliminate 100% of backlog (Establish Customer based and focused timeframes)
- Improve customer relationship in general

Tonya Sekerak

Baseline Data



Baseline Data



Baseline Data

Number of Open Cases		
Tax Type	# Open Cases	
Sales	6,906	
Personal income	2,686	
Corporate Franchise	1,575	82.0%
Commercial Activity	857	
Use	523	92.1%
Personal Property	385	
School District WMI	391	
Real Estate	186	
Withholding	100	
pass Through Entity	80	
Motor Vehicle	19	
Public Utility	13	
Other Tobacco	8	
School District Income	4	
Cigarette	2	
Tire	2	
Dealer Ineligibles	1	
BTA	1	
Total	13,690	

Baseline Data

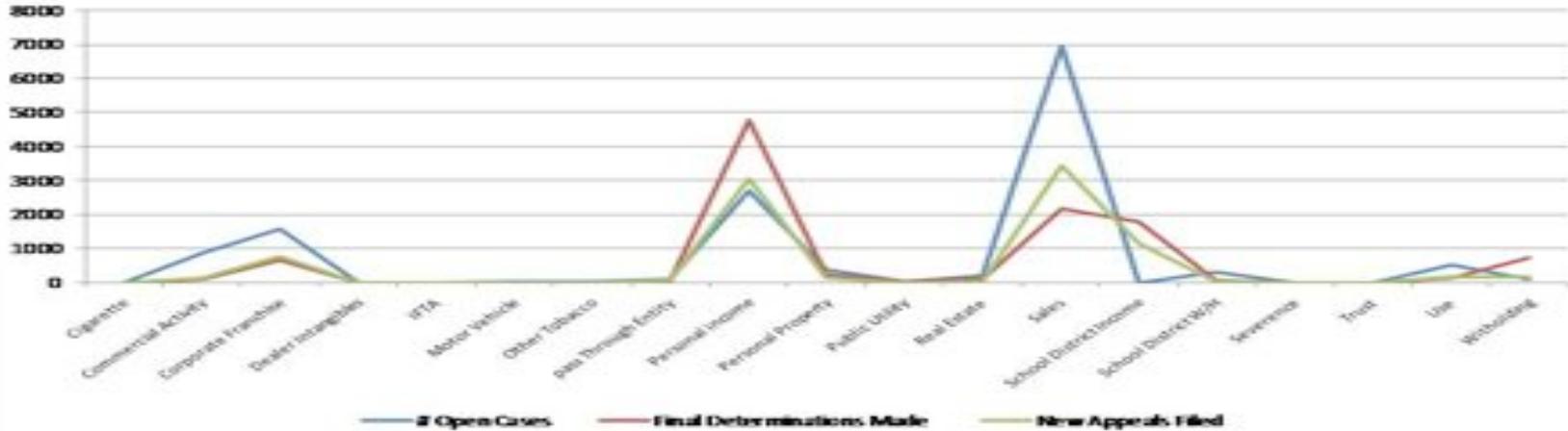
Avg Age of Cases at TAX			
Tax Type	# Open Cases	Avg Time at TAX to Date	# Months
Real Estate	186	1801	60
personal property	365	1386	46
Dealer Intangibles	1	1244	41
Withholding	100	1132	38
Other Tobacco	8	1114	37
Commercial Activity	857	948	32
Public Utility	13	864	29
School District Income	4	829	28
Corporate Franchise	1575	802	27
Motor Vehicle	19	783	26
Cigarette	2	773	26
IFTA	1	737	25
Use	523	723	24
pass Through Entity	80	688	23
Sales	6966	681	23
Personal income	2686	525	18
School District WH	301	420	14
Trust	2	390	13
Total	13690		

Avg Time at TAX Before Transferred to TAD			
Tax Type	# Open Cases	Avg Time Before Xfer to TAD	# Months
personal property	365	673	22
Real Estate	186	423	14
Commercial Activity	857	338	11
Corporate Franchise	1575	177	6
Sales	6966	148	5
School District WH	301	134	4
Personal income	2686	131	4
pass Through Entity	80	125	4
IFTA	1	109	4
Withholding	100	100	4
Use	523	85	3
Motor Vehicle	19	74	2
Dealer Intangibles	1	66	2
School District Income	4	63	2
Public Utility	13	26	1
Other Tobacco	8	25	1
Cigarette	2	24	1
Trust	2	18	1
Total	13690		

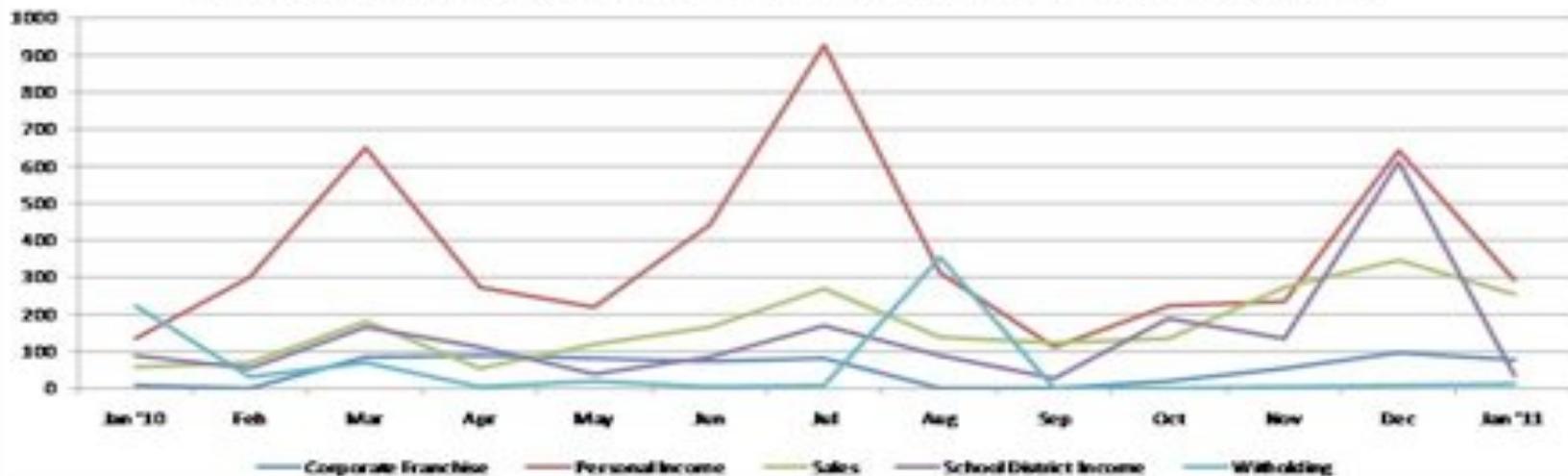
Avg Age of Cases in TAD			
Tax Type	# Open Cases	Avg Time in TAD to Date	# Months
Real Estate	186	1378	46
Dealer Intangibles	1	1178	39
Other Tobacco	8	1089	36
Withholding	100	1024	34
Public Utility	13	830	28
School District Income	4	766	26
Cigarette	2	749	25
personal property	365	713	24
Motor Vehicle	19	709	24
Use	523	638	21
IFTA	1	628	21
Corporate Franchise	1575	625	21
Commercial Activity	857	610	20
pass Through Entity	80	563	19
Sales	6966	533	18
Personal income	2686	394	13
Trust	2	372	12
School District WH	301	286	10
Total	13690		

Baseline Data

**Comparison of Open Cases, New Appeals Filed, and Final Determinations Made
January 1, 2010 to January 31, 2011**



Final Determinations Issued & Cases Disposed by Tax Type and Month



Rich Martinski

The Kaizen Approach

Team-based energy and creativity drives immediate process improvement

DAY 1	DAY 2	DAY 3	DAY 4	DAY 5
Day of Learning	Day of Discovery & Developing Improvement Ideas	Day of Improvement & Creating the New process	Day of Design Implementation & Documentation	Day of Celebration & Results Schedule 30-60-90-day follow-ups

At the end of the week, each Kaizen team has designed dramatic operational improvements



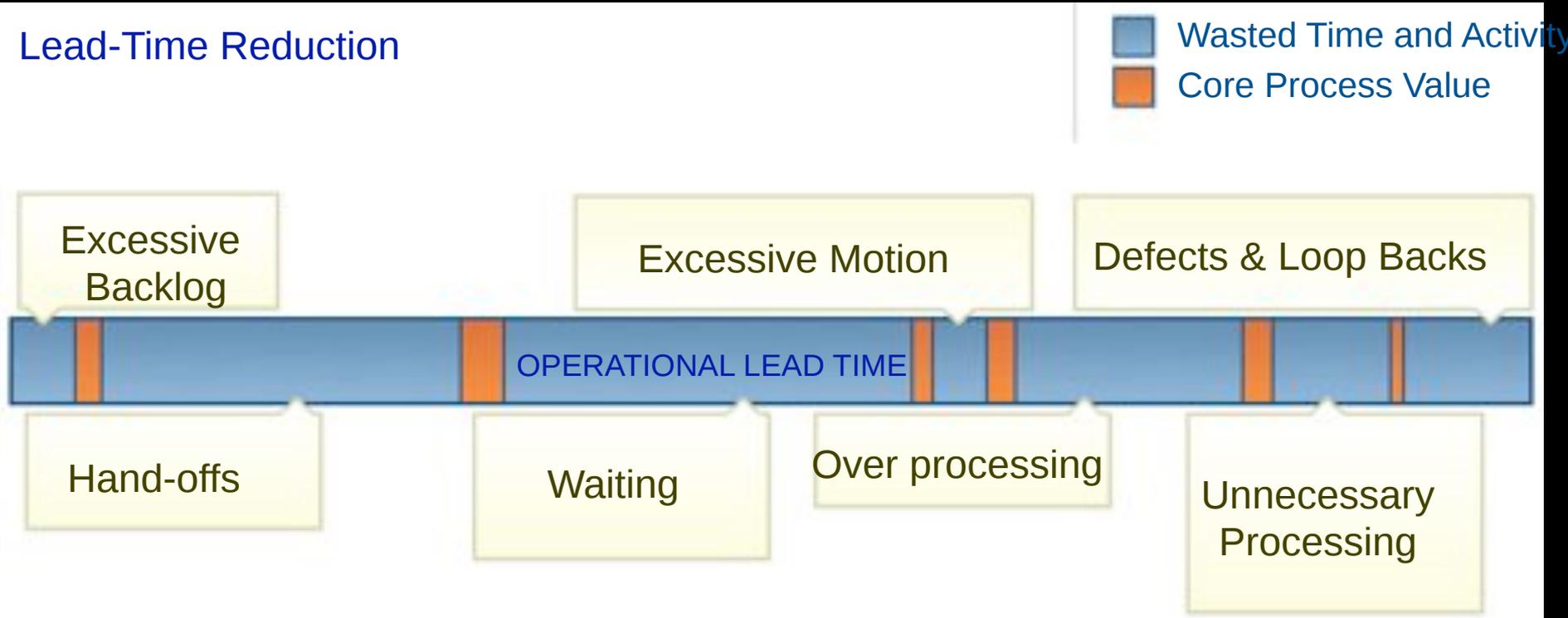
To Break for the Better



- Clear objectives
- Team process
- Tight focus on time (one week)
- Quick and simple, action first
- Necessary resources available right away
- Immediate results (new process functioning by end of week)

Time-Based Strategies

Lead-Time Reduction

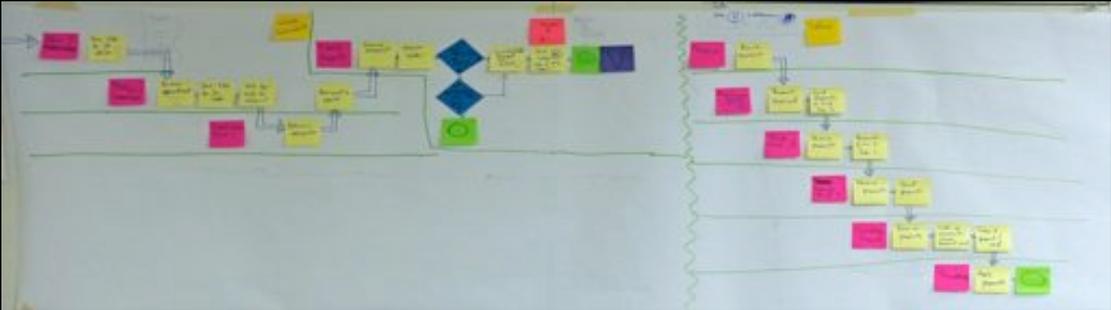
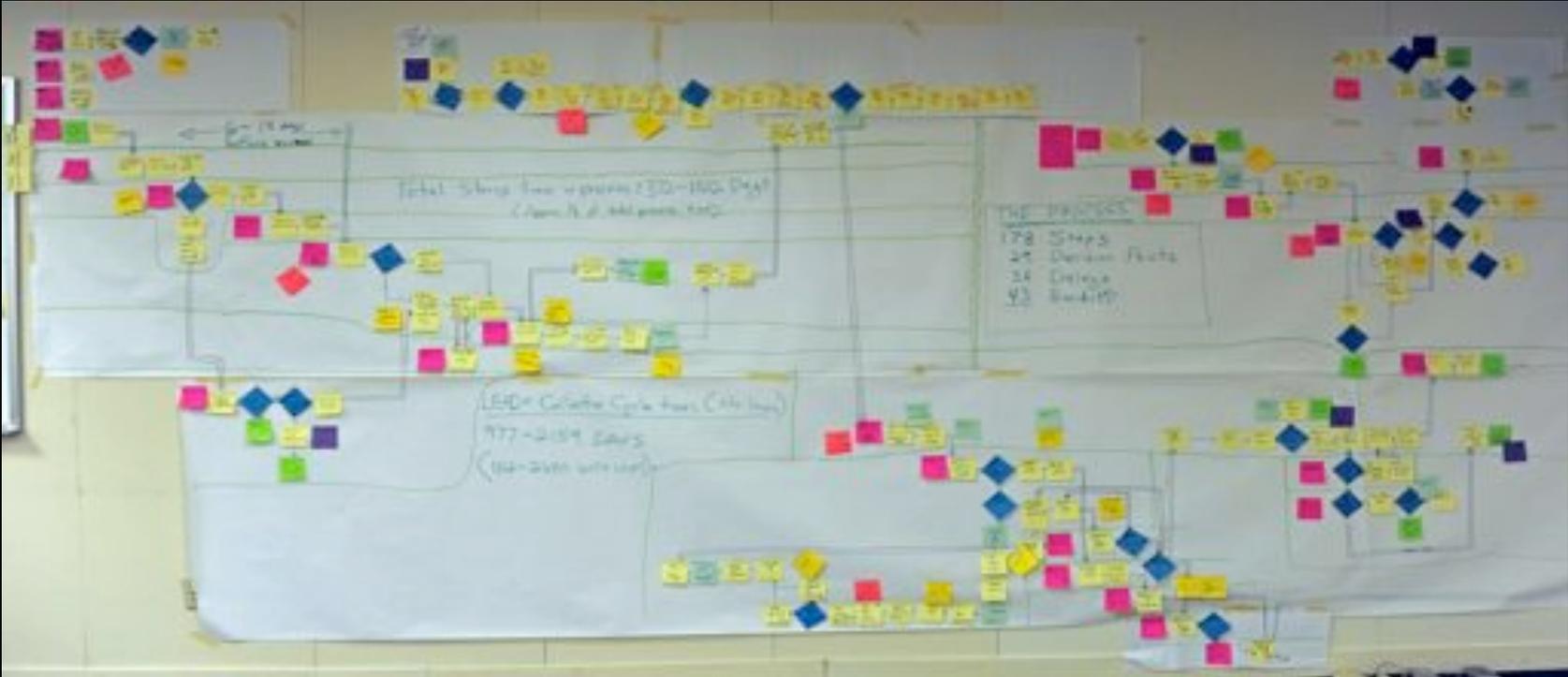


Matt Hollis

Walk-Through



Current-State Process Map



Identifying Value and Waste



Types of Waste

Types of Waste

Transportation

Information / Material

Motion

Waiting

Overprocessing

Overproducing

Defects

Process Map

○ = Beginning / Start Point of Eff. Time

□ = Task

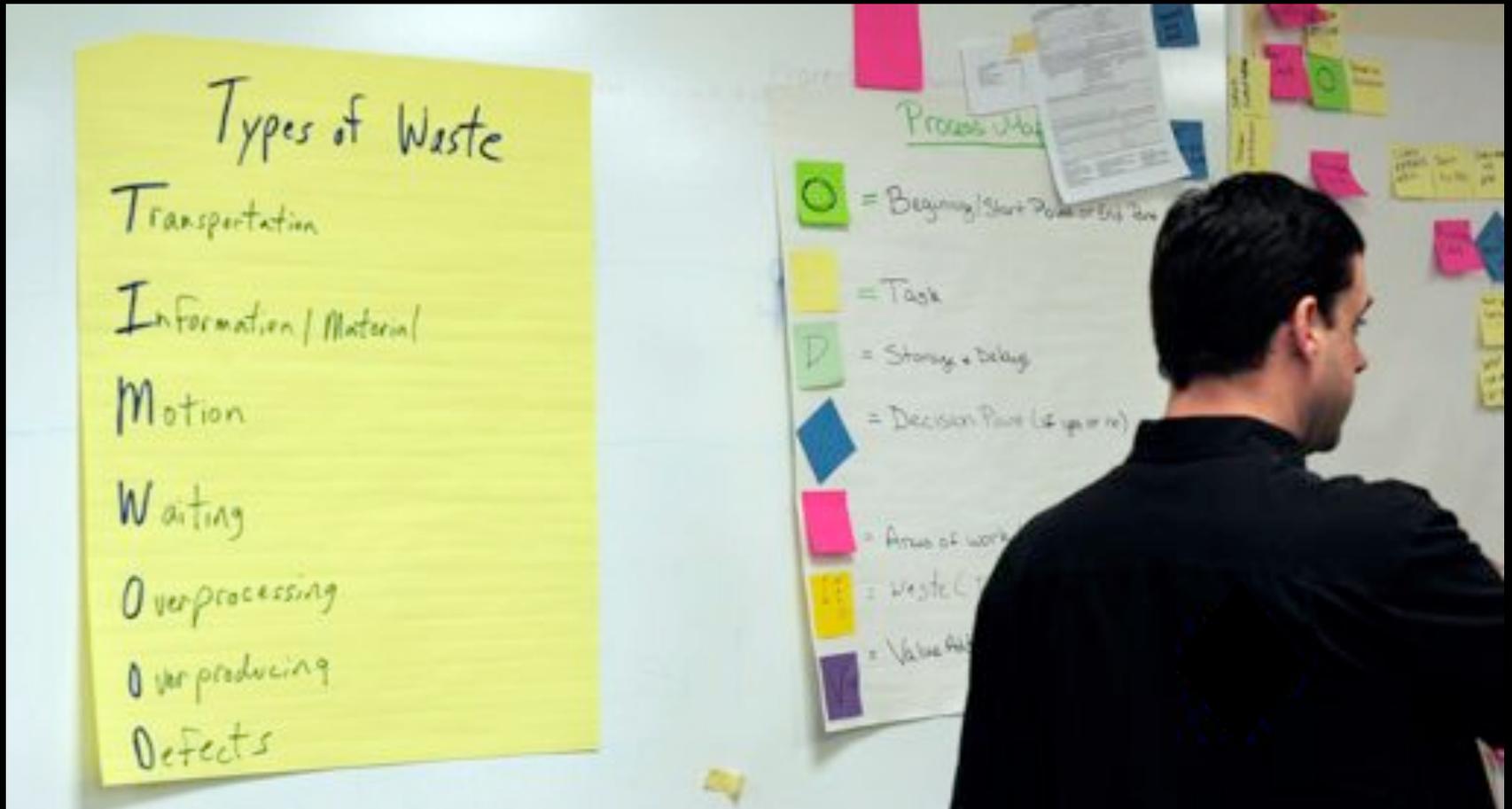
D = Storage + Delay

◇ = Decision Point (if yes or no)

■ = Area of work

■ = Waste (red)

■ = Value Add (purple)



The original processes had:

- Too many entry points
- Too many steps
- Too many handoffs
- Too many decision points and storage delays
- Caused too much process lead time

Marge Brewer

The team brainstormed more than 75 improvement ideas

#1 Compliance Review:

Compliance Work hearing request if assessment can be adjusted
Allow more petitions to be reviewed by compliance with legal guidelines
Have ODT issue more than one C.A.
All petitions go to one place
Compliance Division issues Final Determinations (FD's)
Have agents in compliance work compliance program files
Attorney not needed to issue all FD's
Compliance agents should be able to reduce the assessment penalties further to reduce number of petitions
Compliance agents should be able to make more adjustments prior to sending to legal
Apply any refund from FD to other assessment before notifying TP of refund
Treat abatement request as a petition
Treat abatement as petitions
Add notes to the assessment from attorney issued FD
Give compliance more power to adjudicate "easy" cases
Have compliance sort petitions by tax type prior to sending to legal
Triage petitions better at receipt in compliance

#2 Staff Moves:

Provide Legal staff to Compliance Division
Higher level reviewer – Front-end triaging of cases
Provide Compliance staff to Legal
Manager or subject-matter-expert review/triage cases earlier in the process – direct traffic as to EASY vs. HARD

#3 Change FD Mailing/Inserts:

Send FD through proof of delivery system
Find an alternative to certified mail – not efficient
Place post assessment interest on FD (or as insert – separate notice)
Place payment coupon on FD (or as insert – separate notice)
Use payment coupons for assessments to streamline payment application process
Provide sticker of address to send all checks
Decrease amount of time between FD date and mailing date
FD's to only determine tax liability. No payment information

#4 Use Existing Technology:

Replace TDS with spreadsheet
Checks must be sent to same place and only handled once
Compliance programs should result in template FD
Require attorneys "triage" easy cases within a certain period of time after being assigned
Don't make copies of checks - create payment card instead send checks through processing
Place FD in assessment system

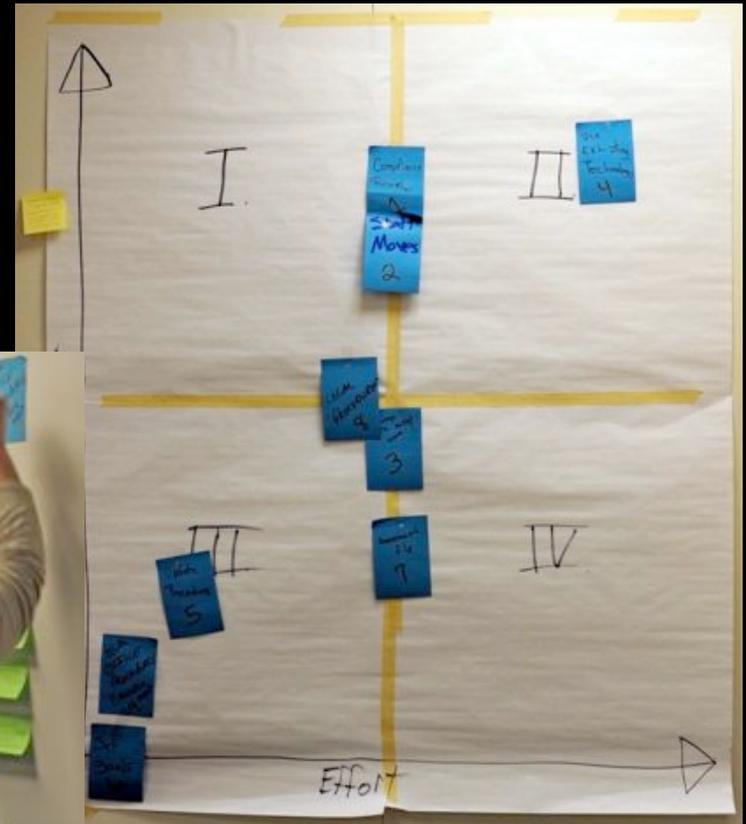
#5 Update Procedures:

Consistency in penalty abatements
Mail merge FDs for easy FDs
Provide wider guidelines on use of FDs and corrected assessments by Compliance
Cases (petitions) below certain dollar amount never go to Tax Appeals
File Information should be complete so attorney doesn't have to look it up again
Don't make file folder

#6 Set Goals:

Set goals on how many to be completed by easy or hard
Require hearings to be held within a certain period of time

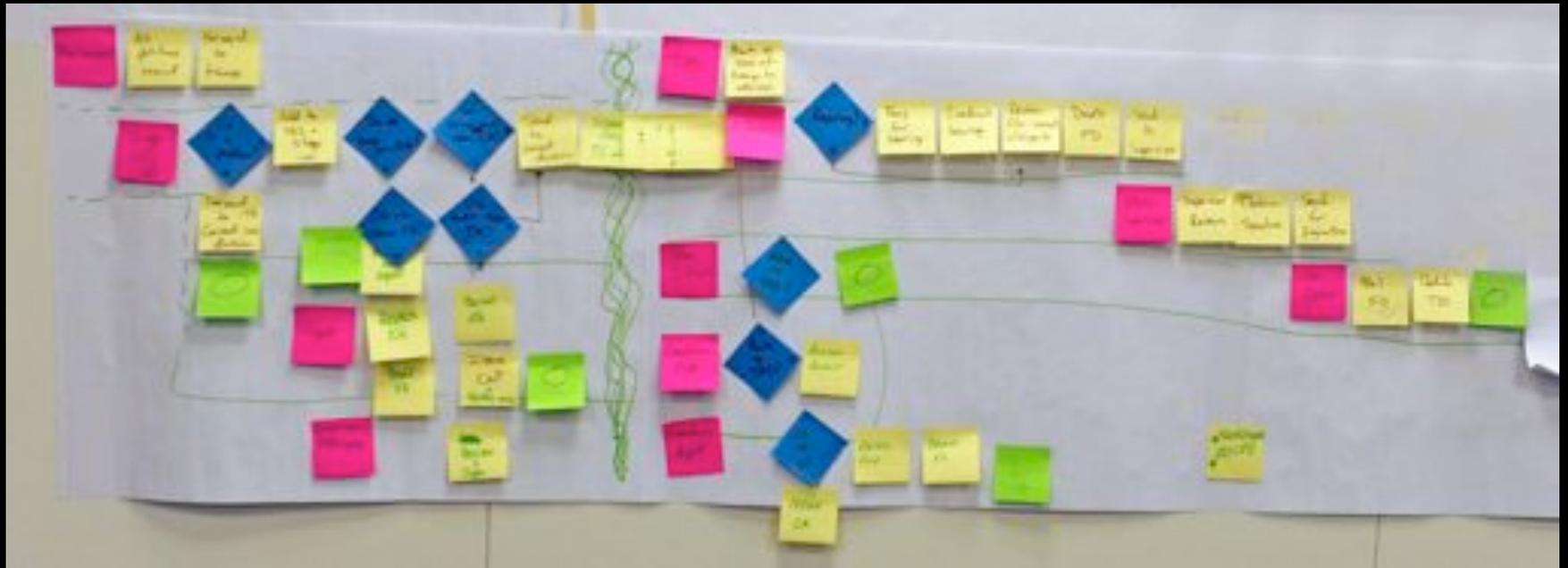
Impact/Difficulty Matrix



Clean Sheet Redesign



The New, Improved Process



Old Process



New Process



Charlie Rhilinger

The Results

Measure	Before	Projected After	Difference
Number of Entry Points	4	1	75% reduction
Steps	143	96	47 less steps
Handoffs	32	26	6 fewer handoffs
Average Lead Time	(In Months) Personal Income - 18 Sales - 24 Corporate Franchise - 27 Commercial Activity - 32 Use Tax - 24	Fast track - 7-20 days Most Petitions - <45 days (Complex < 2 years)	From years to days
Petitions waiting to be processed	13000+	300 - 500	95% - 98%

More Results

- Eliminated from 184 – 797 days of storage
- Projected Cost Avoidance : **\$529,200** (Current Year)
- Projected Cost Savings: **\$62,950**
(Current Year)

Projected Cost Savings Analysis

- Cost for certified assessment < \$5.00 (\$2.50 phone bill and \$0.55 postage)
- Implementing two Corrected Assessments this year - $\$4.25 \times 5400 \text{ cases} = \$22,950$
- Labor cost :
 - \$105/case @ Attorney level
 - \$7.00 /case @ Compliance Staff rate (If Second Corrected Assessment issued)
 - Total Cost Savings per case is \$98.00
 - Approximately 5400 cases can be resolved with Second Corrected Assessment which results in total savings of \$529,200
- Material cost savings (i.e. ink cartridge, folder, paper, printer usage, excess motion)
- If Point of Delivery (POD) implemented , then labor cost savings results in $500 \text{ hours/year} \times 2 \text{ employees} = 1000 \text{ hours} \times \$35 / \text{hour} = \$35,000$. Plus an additional \$5,000 in other Divisions
- Increase in cash flow

Key Issues	Major Improvements
Too many entry points	1 Triage Entry Point. Includes Triage Work Unit.
First in, first out approach to case processing	Triage processed allows for a fast lane process for straightforward cases
Excessive backlog and aging cases	Backlog will be addressed immediately and fast lane process will prevent backlog from building again.
	Pushed decision-making to earlier in the process
Customer satisfaction	Lead time reduced – significantly faster decisions on a majority of cases

Brad Marshall
Chris Kantzer

Implementation Plan

- Single point of entry (Revised forms)
- New process with triage work unit and process guidelines
- IT enhancement points
- Backlog plan
- Training plan
- Communication plan

Single Point of Entry

ACTION PLAN - P.O. Box		
Action/Activity	Who does it?	When does it need completed by?
1) Get check cut from budget (request C. Ahillinger) * < March 21 >	1) Budget K. Menard or S. Cataline	1) Within 1 week of request < March 14 >
2) Change P.R. form	2) forms T. Waddington	2) Within 1 week of request < March 28 th >
3) Change in Payment Info sheet 3a.) $\Delta T300$	3) Compliance T. Tisk/B. Marshall 3a.) V. Atkinson SUT	3) Within 1 week of request < March 28 th > 3a.) win week
4) Inform O.D's and Audit for refund denial	4) Administrators of O.D's	4) Within 1 week of request < April 4 th >
5) * Take place b/t #1 & 2 < March 21 >	5) Mailroom K Gutman 1 Day	* Goal for completion April 1 st - April 15 th

New Process-Triage Guidelines

- Is receipt date within 60 days of delivery date?
- (Note: 5-day grace period: If receipt date is 5 business days after delivery date, receipt date will be circled in red).
- Forward to TAD (Create folder; Add ITAS Assessment; Items in files)
 - Tax Discovery
 - Enforcement
 - Business field audits
 - Trust Income Tax
 - Withholding RP
 - Hearing Request, if corrected assessment process not wanted
 - Office Audits
 - Tax Protester
- Forward to Operating Divisions
 - Add to TDS and place on hold

New Process-Triage Guidelines (cont.)

- Forward to Compliance
 - All other compliance programs
 - Sales NR -DQ
 - WH NR -DQ
 - Corp NR-DQ
 - Pit NR-DQ - CP2000 - Var - FAGI - RAR
 - ITSD - NR, NR, VAR, DQ
 - EWSD - NR
- Immediate Fast Track by Triage Unit Agent
 - -Sales DQ w/return
 - -Pit DQ w/return
 - -ITSD DQ w/return
 - -WH DQ w/return
 - -Corp DQ w/return

Communication Plan

Communication Plan

- 1.) Copy of presentation stays w/ TAD & Compliance - Facilitators
- 2.) Invite to Sup 1's + Attorney/Agents
Carolyn Fox + B. Marshall
- 3.) Update Spectrum Brad Write up share report
- * 4.) Email Blast - DTC → C. Rhilinger mat C.
- 5.) TAXI & Collector Update C. Rhilinger
G. Gudmundson
& H. Wheat
- 6.) Division Staff meeting "M. Walker Group Mtg"
All Admins.
- + 7.) Email from sponsor to O.D.'s DTC Administrators + Invite to report out
- 8.) Matt (Dept. of) Speaks @ Quarterly bar association - AD page # C. Rhilinger
- 9.) Update to Society of CPA's - C. Rhilinger
Via M. Walker
- 10.) Update to internet site - G. Gudmundson

IT Enhancement Points

ITAS allowing 2nd CA

doable → months (need to figure up how)
(PIT/SD analyze)

- Changes to existing doc notice
- Columns → 2 going to 3
- New examples of CA notice
- Creation of 4 new notices (ITAs)
- What other process does the AS effect → besides certification process
- After changes need ample time

Petition → Add CAT

- Add to drop down → trivial
(petition to legal → new CAT)
- Doable → can be accomplished w/in 1 week

P.O.D. Changes v 1 month

- TDS does not control word doc.
(can TDS create manifest) → needs to be electronic
- Barcode/sticker in POD via green card
- Import mechanism needs to be created
(prior to input in POD)
- Mail merge via TDS
-

Training Plan

- New process training for administrative staff
- New process training for Compliance employees
- Structured on-the-job training for new procedures



Backlog Plan

BACKLOG PLAN

Action Plan		
Action/Activity	Who does it	When does it need Complete
① Separate Super petitions by audit type (100) ①	each Attorney	March 20-26 th
② Transfer to Compliance	TAD clerical	March 8-18 th
③ assign files to Agents	Comp clerical	March 13-22
④ Agent completes file	Agent	March 23 - April 30
⑤ TAD sends Sales HR out 2000	- see 1-4 above	May 1 - May 20 th
⑥ TAD sends any PST backlog*	- see 1-4 above	April 25 - May 25
⑦ Other types	attorneys compliance	up to April 25 after April 25

* backlog may be gone by April 25.

Major Process Improvements

- Single point of entry
- Established a triage work unit
- Ability to issue two corrected assessments
- New process eliminates the generation of future backlog
- Establishes an enhanced protocol for signature authority
- Reduced lead time including a major reduction in storage time

Benefits

- Less storage
- Less boxes
- Standardization
- Better tracking
- Less paper
- Less handling
- Improved customer service
- Faster results for taxpayer
- Average cost per case dramatically lowered
- IT enhancement phase-in



What changes Monday?



- START REDUCING BACKLOG -Mailroom picks up sales tax DQs
- TRIAGE BEGINS
- 90% fewer petitions sent to TAD
- Abatement process implemented
- Training & Communication

Personal Lessons Learned

- Others in the department are frustrated too
- Everybody wants to find out the best way to do things
- There's a real method to the madness, results in process improvement
- It was worth it
- Other divisions came in to help (collaboration) and dedicate their time
- Learned a lot about processes of other divisions
- Now I understand the purpose of colored post-its and markers
- Kaizen hurts
- Kaizen can break you

Life as a member of a Kaizen event Team...



Rich Martinski & Tonya Sekerak

What Questions/Comments do you have?



Special *THANKS* to...

- Tax Commissioner Joe Testa
- Matt Chafin, Deputy Tax Commissioner
- Marj Kruse, Deputy Tax Commissioner
- John Petzinger
- Susan Smith
- Kathy Wire
- Vickie Atkinson
- Barb Gutmann
- Rusty Strobe
- Don Bryant

- And all those who were just a phone call away