

2005 NASCIO Recognition Awards Michigan Motor Fuel Automation System

EXECUTIVE SUMMARY

The Motor Fuel Automation Project was initiated in fiscal year 2003 to improve electronic reporting and remitting of taxes levied on motor fuels. The intent was to implement an automated, vendor-state, processing system to receive, validate, record and track motor fuel transactional activity from pipeline to retail pump to tax payment.

The project included development of several integrated systems to handle customer financials, centralized correspondence, and electronic filing and tracking of fuel tax information. ACS State and Local Solutions was selected to customize their existing tracking system for motor fuels and integrate it into existing and newly developed State systems. The systems are connected via Web services to allow each system to perform their individual function(s) and to exchange information electronically for increased and enhanced processing.

The Department of Treasury implemented the guidelines of the Federation of Tax Administrators Motor Fuel Uniformity Committee prior to beginning the project. This resulted in uniformity of Michigan's Tax Schedules with other states; easing the burden on industry. Many of Michigan's filers were already utilizing ANSI X.12 to submit their tax information to other states, as well as to the federal government. The Department also offered a choice of filing methods which allowed industry to select the method which best suited their size and resources.

Industry had advised the Department of their desire to warehouse payments. To satisfy their request, ACH Debit was implemented as part of the project and allows taxpayers to warehouse payments for up to 30 days.

Implemented in June 2003, the program has provided a multitude of benefits including: streamlined tax filing for Michigan motor fuel taxpayers, creation of a "level playing field" for industry, improved timeliness of tax processing, improved quality of tax data, consistent application of audit rules, improved customer service and significant increases in State motor fuel tax revenues.

In the first year, Michigan realized increased revenue of \$23.2 million. An additional \$15.9 million was collected during the second year of operation.

It should be noted that the success of this project provided the Department with the leverage to begin the Tobacco Tax Automation Project. This project is currently in

development, is scheduled for full deployment by June 2006 and is expected to achieve similar results in improved efficiencies and revenue increases.

A. DESCRIPTION OF PROJECT

The Motor Fuel Automation Project was initiated in FY 2003 to automate electronic reporting and processing of motor fuel tax payments. The project was undertaken because internal studies indicated that expanding its store of electronic data and improving motor fuel processing would provide the State of Michigan with a boost in fuel tax revenues and would improve services to the State's motor fuel filers.

The first step was to require electronic filing of a greatly expanded volume of motor fuel detail data.

Further analysis of the problem showed that several integrated deliverables would be needed to fulfill the electronic filing vision. This conclusion led to the development of numerous project "threads" that were managed as separate but associated entities, including electronic filing of motor fuel tax returns, an automated fuel tracking system, electronic customer financials, centralized correspondence, and data mining. The individual systems are integrated providing for the electronic exchange of information, further improving efficiencies of the program. In the data mining thread, staff utilized the state's Teradata data warehouse (on an NCR5380 platform) to develop early revenue projects. Projects that produced revenue or identified compliance issues were used to develop additional rules used by the automated fuel tracking system.

Michigan fuel tax filers submit their tax information electronically utilizing either ANSI X.12, ASCII flat file, or via web forms. The ACS motor fuel processing system provides for electronic filing, receipting, validating and recording of all fuel tax return activities.

The ACS data interchange facility offers secure data filing services for ANSI X.12 and ASCII formats and accepts, controls and processes these data file transfers. The data interchange is targeted to electronic reporting entities that have internal application software that can format the data into specified file layouts. The shipment of the data file to the site (file transfer) is handled via HTTPS (secured) protocols via a HTML front-end page that allows the user to initiate the file transfer. Michigan originally offered ANSI X.12 to ease the filing burden on industry already filing in such format. ASCII, or standard text file formatting, is also accepted, as it is the easiest for businesses that are less sophisticated in the use of computer technologies. The Department will implement XML when the industry is prepared to utilize the newer data exchange technology.

Web direct form filing allows smaller reporting entities to file electronically by completing the tax reporting forms directly and securely, on-line, over the Internet. This filing method is particularly effective for those reporting entities that have 20 or fewer transactions to report and/or whose internal applications are not set up to transmit output files. The on-line forms are designed to replicate the paper forms and are easy to complete. Further, with the technology employed by ACS for web form filing, the filer

communicates directly with the application system, with all data edits and validation completed in real-time mode. This allows the user to submit validated and accurate tax data one time, without the potential of multiple filings associated with batch filing.

All filers, including ASCII and X.12, can review and make corrections to their tax returns on-line.

In 2004, the system processed more 4,926,741 transactions and 3,148 tax returns. These filings, previously submitted on paper, were housed in multiple file cabinets. Prior to implementation of the automated fuel processing system, four (4) Desk Auditors required more than 30 days to review and cross-check only the most critical parts of each return. All discrepancies at all levels of detail are now identified electronically and worked on-line in approximately five (5) days. Tax administration staff now can accomplish data mining tasks that result in a more equitably administered tax and in additional tax revenue from liable taxpayers.

The fuel tracking system utilizes web-services to report liabilities to Treasury's Customer Financial System and to send notices of filing problems to the Centralized Correspondence System. Both Treasury systems are ORACLE based and are housed at the State's Central Data Center.

Most filers make payment using the State's ACH debit system, which allows payments to be warehoused for up to 30 days. ACH credit payments are also accepted. Payment transactions are posted and reconciled in the Customer Financial System. Payment, refund, financial reporting, accounts receivable and automated interfaces to the statewide accounting system have also been developed.

Centralized correspondence functions were developed to accept automated requests from both the Fuel Tracking and the Customer Financial systems, which resulted in the automation of outbound correspondence. Web services are used by the systems to request letters from the Correspondence system which generates the letter and sends it to the State's Consolidated Print and Mail Services Centers. Activity entries are created for the Siebel Customer Relationship Management system (CRM) and an image is created for Filenet. Treasury customer service representatives can serve inquiring taxpayers better and quicker having much more information at their computer workstation.

The Michigan Motor Fuel Automation System was implemented in May 2003, beginning with the electronic web filing software system. The tax return processing system was implemented in June 2003, and the financial and correspondence systems in August 2003.

B. SIGNIFICANCE TO THE IMPROVEMENTS OF THE OPERATION OF GOVERNMENT

The Governor and her cabinet adopted a five (5) major goals and used these goals to set budget priorities. One of those major goals was to make government in Michigan more cost effective and efficient. This Motor Fuel Automation Project implemented no fewer than four of the Governor's strategies to achieve better government. The Departments of Treasury and Information Technology cut red tape by streamlining services and implementing innovative technology to reduce time, mistakes and costs. Treasury became better in offering fast and friendly service. The Department's of Treasury and Information Technology improved strong collaborative relationships with...the private sector. Remaining true to the obvious, perennial strategy, Treasury became better at collecting the tax revenue due the State.

The transition away from a paper-intensive process, the use of automated analysis tools, electronic receipt and financial processing and the expansion of control reports were all achieved through the implementation of this system. The electronic processing of end-to-end motor fuel tax information provides for a more accurate filing of returns by taxpayers, the more complete review of tax returns, the more effective collection of fuel taxes and a more equitable administration of fuel tax exemptions. All fuel types and tax amounts are tracked throughout the distribution chain ensuring tax returns are submitted and fuel taxes are collected for every load of fuel.

Use of standardized electronic data created new opportunities for the Michigan Motor Fuel Review staff to extend expertise into areas previously impossible to process when data was handled manually. Third party information is now being utilized to determine motor fuel tax compliance including, state-to-state tracking by load (imports / exports), Federal-to-state load tracking, and International load tracking (US Customs).

Michigan continues to leverage the benefits of a central, information technology organization. One of the Department of Information Technology's guiding principles is using commercial off-the-shelf software (COTS) whenever possible. The project's foundation was the ACS application already in use in five other states. In addition, Treasury integrated off-the-shelf FileNet and Siebel software already in use throughout the Department: in individual and business tax administrations, tax enforcement, warrant reconciliation, collection of defaulted student loans and human resources. An axiom to the guideline, if COTS is not available, build software that can be re-used. Two other Motor Fuel system components, taxpayer financials/ledgers and correspondence generation, were built and have already been leveraged across other Treasury application systems: Tobacco Tax processing and collection of defaulted student loans. Maintenance efforts are reduced, time-to-market for new software applications or application changes is reduced and processing functionality is optimized.

Financial integrity of Motor Fuel collections is taken to the highest ever level.

The following Department of Treasury goals and strategies were achieved:

- Growth in skills of the Department's workforce through application of modern auditing techniques
- Process improvement through delivery of web-based tax filing services and electronic payments
- Process improvement through refined tax filing processes
- Financial improvement in generation of additional motor fuel tax revenues
- Financial improvement due to greater integrity of the collection, distribution and refund processes
- Treasury image improvement through enhanced taxpayer communication services
- Treasury image improvement through uniform application of auditing rules to all taxpayers, regardless of their size

C. BENEFITS REALIZED BY SERVICE RECIPIENTS, TAXPAYERS, AGENCIES OR THE STATE

All of the entities involved in motor fuel tax processing benefited from implementation of the automated motor fuel tax processing system. Some of the benefits achieved include:

- Reduction in the amount of paper used by Michigan filers which had to be manually handled and stored by the Department.
- First year return was \$23.32 million in additional motor fuel tax revenue.
- Compliance improvements are estimated at 1.2% for succeeding years – approximately \$11.3 million per year.
- Electronic taxpayer payments via ACH debit are more efficient for both the customer and the agency.
- 24 x 7 electronic filing via the web is provided to taxpayers at no charge.
- Returns are quickly posted to the taxpayer's case files resulting in less interest paid to the State by the taxpayer. Desk Auditors transition to revenue-producing analysis.
- Automated correspondence loaded into the Consolidated Print Center, Siebel CRM system and Filenet results in a time savings in printing, mailing, distributing and scanning of documents.
- The State of Michigan accounting is automated (formerly manual), saving on staff resources needed to process financial transactions.
- All tax dollars coming into the State, distributed, and refunded are tracked in detail and at summary levels providing for detailed financial activity tracking.

D. RETURN ON INVESTMENT

- Year one ROI is \$7.14 per dollar spent; calculated as the ratio of dollars collected and dollars spent.
 - o Project cost is \$3.266 million (cash accrual based on combined state payroll and vendor payments).
 - o Year one return is \$23.32 million (cash accrual based on actual dollars collected, excluding accounts receivable).
- Year two ROI is \$33.08 per dollar spent (calculated as ratio of dollars spent and dollars collected).
 - o Year two return is \$4.6+ million (cash accrual based on actual dollars collected, excluding accounts receivable).
 - o Compliance increase is estimated at \$11.3 million per year (cash accrual based on actual performance).
- Transition of desk to value added activities such as data mining.