South Carolina
Department of Revenue

Annual Accountability Report

Fiscal Year 2004-2005

Mark Sanford, Governor
Burnet R. Maybank, III, Director

Accountability Report Transmittal Form

Agency Name - South Carolina Department of Revenue

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I. Executive Summary

Mission and Values: The mission of the Department of Revenue (DOR) is to administer the revenue and regulatory laws of this state in a manner deserving the highest degree of public confidence in our integrity, effectiveness and fairness. To accomplish this mission, the South Carolina Department of Revenue will:

- Administer revenue and regulatory laws in a fair and impartial manner;
- Collect the revenue due the state;
- Recommend improvements to the laws administered;
- Ensure a professionally-trained staff of employees;
- Continually improve the quality of services and products; and
- Provide guidance to foster compliance with revenue and regulatory laws.

The values of our department are: Customer Focus; Equal Treatment; Integrity; Accountability; Continuous Improvement; Informed Decision Making; Knowledge; Teamwork; Open Communication; and Recognition.

In concert with our mission, the Department of Revenue contributes approximately 94% or $7.3 billion to the state's general fund through our collection and enforcement activities from the 32 taxes we administer. (See Figure 7.2.1)

With approximately 94% of total collections coming through voluntary compliance, the remaining (6%) is deemed to be enforced collections which account for over $532 million to revenue collections. (See Figure 7.2.2)

The DOR plays a major role in the state budget process. The Director represents the DOR, in an ex-officio capacity, at meetings of the Board of Economic Advisors (BEA). The BEA is dependent on information provided by the Director in formulating budget estimates for purposes of developing guidelines for the General Assembly to establish the state budget.

Through the Director's leadership, DOR fulfills its legislatively mandated (§11-11-10) obligation to be represented at all meetings of legislative committees related to budget activities. The legislation reads "It shall call upon the State Department of Revenue for any information desired, and the State Department of Revenue shall furnish such information and shall be present at all hearings before the committees having charge of the appropriations in the Senate and House." The Director, is often called upon to address meetings of these legislative committees in order to explain and help formulate budget policies as it relates to revenue collections.

Further, the DOR and its Director are instrumental in bringing new businesses and encouraging existing businesses to expand within South Carolina. Along with the South Carolina Department of Commerce (DOC), DOR is the other state agency that is primarily involved in enhancing economic development in this state. The DOR administers most of the tax credit programs in this state and therefore, is often required to be present at meetings and presentations when new businesses are considering locating in this state. The DOR is responsible for administering the jobs tax credit, the economic impact zone investment tax credit, the corporate moratorium, the special allocation and apportionment of income program, the fee-in-lieu of taxes program and the license tax credit for utilities, among other credits and incentives. The Department, in cooperation with the Commerce Department, administers the job development credit (JDC) audit program. Utilizing two retired audit personnel, 85 audits were completed resulting in assessments of $1,320,405 and collections of $1,072,915. This represents a return on investment of 14.4:1.

Director Maybank initiated two projects which garnered national attention. His project involving abusive tax shelters resulted in collections of $10,500,000 and pending Circular 230 (disbarment proceedings) against those individuals who promoted the shelters. His project on abuses involving charitable donations of conservation easements is ongoing. Director Maybank has been quoted in national publications such as the Wall Street Journal, and he has made a presentation to the U.S. Senate Finance Committee on how egregious these abuses are, which run in the millions of dollars.

The South Carolina Department of Revenue continues to be a leader in the percentage of returns received that are filed by electronic/non-paper methods. The latest available information from the Federation of Tax Administrators placed South Carolina tied for eight with Ohio, Idaho and Montana. South Carolina's percentage of 52% trailed Iowa (64%), Minnesota (63%), Wisconsin (59%), Michigan (58%), California (57%), Nebraska (54%) and Arkansas (53%). Of note is that electronic filing is not required in South Carolina, but is required in some other states for certain taxpayers. With that in mind, maintaining our position as leaders in this area is a substantial accomplishment. Promoting electronic filing has been a significant cost and time saver for the Department, the State, and the taxpayer. (See Figure 7.2.4 and 7.2.5).

Electronic collection processes also have allowed the agency to collect an average of 65.08% of tax dollars electronically, up from 64.42% in FY 03-04. (See Figure 7.3.4 for the monthly totals).

Major Achievements from Past Year:

During FY 04–05, the Department of Revenue completed its fifth year of progress under its current strategic plan. Beginning September 8, 2005, the agency embarked on the next iteration of the strategic plan and annual business plan. The plan forces us to maintain a focus on our major goals and objectives.

During this fiscal year, Director Maybank made a proposal to the General Assembly to collect an additional $90 million in enforced collections if the Department of Revenue was appropriated an additional $9 million to hire new collection, audit, and taxpayer assistance staff as well as providing for infrastructure enhancements including systems upgrades and expansion of our scan/imaging technology. Director Maybank led the Department through a rigorous year with these high goals and expectations. With the Legislature's expectation of a return of an additional $90 million in enforced collections, the Department studied and identified effective strategies to reach that ambitious goal. Achieving this goal meant excellence in planning and execution. Through his leadership we did both. We not only achieved the Legislature's goal, but exceeded it for total enforced collections in excess of $532 million. Total collections from both enforced and voluntary collections this year will exceed $7.3 billion.

A partnership between the Department of Revenue, Department of Transportation and some private sector businesses was created for the purpose of processing all motor fuel tax returns. The Motor Fuel Electronic Data Interchange (EDI) is saving time and money for the agencies, businesses and taxpayers.

Strategic objectives accomplishments (see section 2, strategic plan chart for the list of objectives for numeric references):

Nonfilers: For FY 04–05, the Filing Enforcement/Individual Income tax area of the Data Warehouse project issued 15,271 notices to possible non-filers. The total amount assessed is in excess of $65 million dollars with $340,486 collected thus far. Other programs worked by Office Audit generated $28,997,248 in assessments and $17,477,746 in collections for FY 04-05.

We continue to exchange information with the other Southeastern Association of Tax Administrators (SEATA) states on a monthly basis. We collected $10,827 with 88 assessments issued for FY 04-05. We are also continuing to identify possible use tax non-filers through the U.S. Customs project. For FY 04-05 we issued 210 assessments totaling $202,074 and collected $92,536. Our project of obtaining furniture delivery information from transportation companies in North Carolina continues. For FY 04-05 we issued 1,341 notices and collected $346,272. A new program using information obtained from the US Coast Guard was implemented during the fourth quarter. We issued 160 assessments totaling $63,556 and collected $22,326.

The Nexus/Discovery Unit registered 285 taxpayers and collected $8,450,735 for FY 04-05. This represents the most successful year in the unit's history. The unit contributed $3,992,031 to the 9/90 effort Projects worked this year include internal database crosschecks, regional and national information exchanges, internet research, field audit referrals, and other agency crosschecks. The unit continues to pursue out-of-state companies selling medical products and equipment. With our success in registering some of the largest furniture companies in North Carolina, we are currently working with the MultiState Tax Commission (MTC) on an agreement to register the remaining key companies.

Develop a systematic stakeholder feedback system: Director Maybank continues to be an advocate of strong taxpayer and stakeholder relations. Therefore, we continue to increase the number of taxpayers we reach by developing relationships with various associations or organizations to assist with marketing our taxpayer education seminars. Thus far, we have developed partnerships with the Internal Revenue Service, Hospitality Association, SC Manufacturing Alliance, SC Association of Nonprofit Organizations and many counties such as Lexington, Richland, Calhoun and Dorchester.

Much work has been done in coordinating our taxpayer education seminars. The Sales & Use Tax Seminar manual was revised for all of the 2005 seminars along with a separate manual for Nonprofits. Our taxpayer education seminars have included speakers from the Social Security Administration, US Department of Labor, SC Manufacturing Extension Partnership & Women's Business Center, Internal Revenue Service and Department of Commerce. Our partners are a tremendous help in getting the information out to their respective industries. In 2005, we held a Sales & Use Tax Seminar for the Construction, Hospitality, Manufacturing, Nonprofit and Retail

Industries. The Tax Seminar for Manufacturers includes property tax as well as sales & use tax issues. We have also held multiple Local Tax Workshops in the following counties: Lexington, Richland, Calhoun, and Dorchester. These workshops were held to inform the taxpayers of the new local tax that was implemented in their counties.

Free monthly Sales Tax Forms and Withholding Tax Forms Workshops continue to be held with extremely positive responses from attendees. Our taxpayer assistance officers continue to be a great marketing source for these workshops and they report positive feedback. These workshops continue to be a factor in enhancing the public's perception of the DOR. As of June 30, 2005, we have had 308 participants register for the Sales Tax Forms Workshops and 160 for the Withholding Tax Forms Workshops.

We continue to provide instructors to the IRS' coordinated Small Business Tax Workshops. Both the IRS and the Employment Security Commission also provide instructors for these workshops that are held monthly at various locations in the state. An average of three workshops are held per month.

In addition to the partnerships already mentioned, we sponsored the Brownfields Remediation Seminar on October 6, 2004 in association with the Realtors and Developers Association. This workshop provided information concerning this corporate credit to taxpayers. There were 93 attendees.

We continued to provide agency personnel as presenters and to assist in resolving taxpayer problems onsite with the Clemson University Tax Schools. The Tax Schools were held in six locations around the state including Spartanburg, Columbia, Florence, Mt. Pleasant, Clemson and North Charleston. We revised the DOR Clemson Tax School manual and sent it to Clemson University for printing. For the 2004 tax year, a total of 916 accountants and other tax professionals attended the Clemson Tax Schools.

The results of the latest Customer Satisfaction survey indicate that 90.7 percent of the time the agency met or exceeded expectations with the service delivery. (See Fig. 7.1.1) Current paper refund cycle time statistics show that the agency processed short form refunds in 23.35 days and long form refunds in 23.57 days. Of these processing times, seven days are included in those numbers to allow time for the check to be printed. For tax year 2004, direct deposit refund requests numbered 385,558. The amount of refunds deposited by the direct deposit method was $284,482,143 with $1,058,798 returned and converted to paper checks. Overall, individual income tax processing time was reduced again this year, establishing yet another benchmark for the Department.

Upgrade our Technology Infrastructure: A number of projects have been initiated with either progress achieved and/or completed this year. They include:

- SC-Business One Stop, our one stop business registration partnership program – Completed implementation of first stage of SCBOS
- Data Warehouse technology to identify uncollected revenues which consist of taxes due from non-filers, under reporters and failure to pay taxpayers.– On track with revenues now being collected and reported

- Update to IRM Strategic IT Plan & South Carolina Automated Tax System Replacement (SCATS) - Completed draft and initiated SCATS replacement.
- Scan Image System & Remittance Processing **-** Completed system detail design and started programming the scanner, Viking data entry and FileNet quality assurance pieces.
- Upgrade of existing network wiring and switches - Rewire is complete and all workstations and peripherals have been switched over to the new network.
- "My Taxes" Web Portal – Universal Authentication - Credit card processing was successfully migrated to DMV, and work has begun on bringing the full functionality in-house
- Motor Fuel EDI (Electronic Data Interchange) - As of March 31, 2005 twelve suppliers and eleven terminals have been approved for filing thru Zytax
- DOR Learning Management System - Integration and deployment of Ontrack to DOR is complete.
- Disaster Recovery Plan - Responsibility was turned over to Chief Financial Officer
- SIC to NAICS code Conversion **-** Complete and operational.

Governmental Enterprise Accounts Receivable Collections (GEAR): Currently we have 46 entities participating in GEAR. We made a GEAR presentation to the Association of Counties on August 22, 2005. Collections for GEAR for this fiscal year total $2,442,678.80. Our debt set-off program continues to be an excellent collection tool for those entities who wish to participate in the program. (See Figures 7.5.7 and 7.5.8).

Obtain an Integrated Financial System - The Comptroller General's office and the Office of CIO have established a SAP implementation team to develop the statewide blueprint for implementing SAP (the replacement program to SABAR). Our Deputy Director serves on the Executive Committee for this project. DOR is scheduled for implementation of the SAP financial program beginning in September 2006 and goes live on the system by the end of FY07. Accounting and Procurement personnel are involved in the implementation blueprint development and are attending workshops on this process. The FY06 Executive Budget Requests were required to be developed in an Activity Based format and the Governor's office is developing the budget using a zero based process. Accounting was assigned to a Budget Results Team and helped develop the FY06 Executive Budget. They have been assigned to the FY07 Budget Results team as well.

Drive the state's one-stop registration project - South Carolina Business One Stop (SCBOS): Our enterprise initiative South Carolina Business One Stop (SCBOS), with our partners, the SC Secretary of State's Office, Employment Security Commission, Department of Health and Environmental Control, and Department of Labor, Licensing, and Regulation, went live on March 7, 2005. This new web site, www.scbos.com, has a new look and feel, and a new logo. The business information and links to other local, state, and federal agencies were incorporated to the new site. A link was created from the myscgov.com website to SCBOS. Users now have the ability to register, or reserve an entity name with the SC Secretary of State's office. The announcement of the new site was made via a press conference with the participating agencies, with the Secretary of State making the "go live" announcement. The Employment Security Commission filmed the press conference and featured the new site in their June TV show, Carolina Works. Carolina Works spotlighted the site and showed interviews from the participating agency heads.

SCBOS is a great benefit to businesses in that it increases their productivity. A study in 1998 revealed a business averaged 47 hours to register and obtain proper licensing. There are approximately 10,000 new businesses opened in South Carolina each year. At a business cost of $15 per hour times 47 hours times 10,000 businesses, an annual business cost would be over $7,000,000. From the launch date of SCBOS through June 30, 2005 it is estimated that SCBOS has saved its users 12.2 man years and $372,945, with a projected annual business savings of 47.2 man years and $1,440,000.

Workforce planning: Data was gathered to determine critical needs for workforce planning strategies. Work areas where the greatest number of TERI employees and five-year retirement eligible employees are employed were identified. We have prioritized and coordinated efforts with the work areas. Research was conducted on competencies and competency development. The DACUM (Develop a Curriculum) job analysis process is being used, allowing us to develop more in-depth job analysis for career path and competency development plans and as the basis for a training plan for new employees.

Another component of our workforce planning efforts was preparing the employees who are on TERI or eligible for retirement. A seminar for TERI employees who will leave the agency between now and June 30, 2006 was held with 54 people attending. A representative from Deferred Compensation presented options TERI participants will have once they finish the program. A Pre-Retirement seminar was held in June with the State Museum and Confederate Relic Room also invited to attend. The seminar targeted the 142 DOR employees who will be eligible to retire in the next five years. Over 60 people registered for the program which had speakers from the SC Retirement System, Deferred Compensation, SC Insurance Office, Social Security as well as a financial planner.

Tax Law Training: Our major focus continued to be the 9/90 project with the training and development of quick reference guides, e-learning modules and courses that were used in the instruction of the 77 new employees hired in June and July. A Tax Law Education Calendar was developed and sent to all employees during December. This calendar is a list of upcoming 2005 internal employee training sessions, as well as external taxpayer education seminars that we will be offering.

Using Advancing Technology in Training:
We began developing tax type web pages for all major taxes which are designed to allow quick and easy access to all our tax information on the DOR website in “3 clicks or less.”

During this fiscal year e-learning modules were developed for: Introduction to SCATS (South Carolina Automated Tax Systems), BTR (Business Taxpayer Registration, TAS (Taxpayer Accounting System), Tax Processing Systems, ARMS (Automated Receivables Management System), and ACS (Automated Collections System. E-learning modules were also drafted for the South Carolina Business One Stop system. These modules were completed and published on the SCBOS website. An overview of SCBOS was developed in an e-learning format and was copied to CD's for distribution for media/marketing purposes.

Leadership Development: Leadership development continues to be a strategic issue with the agency. Another session of the Leadership for Results program, launched in 2003, began in January and will continue to meet once a month through December of 2005. The session has a total 40 people with representation from all agency departments as well as two participants from GC Services, one of our collection contractors whose offices are housed in our building. A total of 80 employees have now attended this program whose goal is to develop leaders at all levels of the agency.

Continuing education for the 03-04 Leadership for Results group was held. A Situational Leadership class was scheduled for December 9 and 14. A total of 42 employees from the Leadership for Results class as well as supervisors and managers attended this program.

This year the agency has seven employees enrolled in the Certified Public Manager (CPM) program's Class of 2006 in addition to the six employees currently enrolled (Class of 2005). DOR now has 20 graduates of the program. In addition, employees in our Human Resource Planning & Development section are participating in a new program offered through the Budget & Control Board aimed at improving the skills of HR related personnel.

DOR Electronic Encyclopedia: The development of DOREE (Department of Revenue Electronic Encyclopedia) continued throughout the year. E-learning modules developed were Introduction to SCATS (South Carolina Automated Tax Systems), BTR (Business Taxpayer Registration, TAS (Taxpayer Accounting System), Tax Processing Systems, ARMS (Automated Receivables Management System), and ACS (Automated Collections System). An e-learning module was also developed entitled "Sales Tax Form Tutorial." This module was based on the instructor-led taxpayer education workshop. The "Sales Tax Form tutorial" was published on the DOR website as an on-line learning program for taxpayers.

Employee Recognition and Satisfaction: Director's lunches continue to be a popular recognition method. During the fiscal year thirteen lunches were hosted with 116 employees recognized.

Additionally, with the successful progress of the 9/90 collection initiative, pizza lunches were provided to all Columbia Mills Building personnel during February and March. Taxpayer Service Centers also held all employee recognition events for their efforts in accomplishing the collection goals. 2005 marks the agency's 90th birthday. Therefore, June 22, 2005 was scheduled for the DOR Employee Recognition Event to celebrate our 90 years plus the collection of the more than $90 million additional dollars required by the General Assembly. All types of memorabilia from the past were showcased during this event. A barbeque lunch with birthday cake was provided to all employees.

Key Strategic Goals – Our strategic plan focuses our efforts in four Key Result areas with associated strategies. Beginning September 8, 2005 the Department began the comprehensive review of our five year plan. Our current Key Strategic Goals are detailed in the Strategic Planning Chart located in Category 2.

Opportunities and Barriers:

Opportunities

- Having a large influx of new employees creates opportunities for restructuring some sections, instilled more awareness for generational values and opened the door for more evaluation of processes.
- Focus on measurement refinement allows for greater control of processes.
- Privatized collections continue to develop stronger supplier partnerships.
- Purchase and implementation of the statewide financial package with SAP will allow for greater streamlined processes and efficiencies.
- Continued incorporation of process improvement techniques allow for greater employee involvement, boost to morale, and more efficient processes.
- Improved financial management is being realized through activity based costing and zero based review.
- Greater voluntary compliance and more accurate reporting is expected as a result of more extensive taxpayer education opportunities.
- SCBOS (South Carolina Business One Stop) provides more flexibility for taxpayers to manage their own businesses.
- Succession and workforce planning and job analysis activities are allowing us to capture and manage organizational knowledge.
- Telecommuting continues to provide an avenue to keep expertise and provide for greater productivity.
- Motor Fuel Electronic Filing, Lottery Compliance, and the SCBOS activities continue to provide partnering opportunities with other state agencies, counties, and other entities.
- We continue to support a greater focus on electronic audit and collection techniques, proper allocation of work to private collectors, and renewed focus on return-on-investment.
- NEXUS internet research and tape and data matching allow for greater discovery of areas of non-compliance.
- Data warehouse project has begun to allow for storage and mining of internal and external data to identify non-filers and under-reporters.
- We have the ability to accomplish high profile goals that make a difference for the state and the agency, e.g.; SC Business One Stop, the data warehouse project, updated scan imaging, e-commerce efforts and new remittance processing system.
- A compensation study to achieve an equitable pay structure was completed.
- Establishment of a blueprint for the future with an updated IT strategic plan for replacement of SCATS (South Carolina Automated Tax System), the incorporation of the data warehouse, SAP and SCBOS and continued collaboration of state resources.
- Partnering opportunities to accomplish high profile goals.
- Increasing use of taxpayer workshops, including industry specific training, maintains our direct contact with taxpayers allows then to get answers to questions and improves compliance.
- Use of focus groups of taxpayers reinforces our commitment to meeting their needs where feasible and gives then the opportunity to aid our agency in the development of new projects.
- Our compliance efforts are enhanced with the IRS' refocus on compliance.
- We continue to share more information with counties.

- Greater acceptance of electronic transactions by taxpayers, counties, etc. assists in the utilization of our electronic processes and saves money for the agency.
- Continued development within e-commerce offers both filing and payment options as well as the eventual ability for taxpayers and their representatives to manage their own accounts electronically in a secure environment.
- The transfer of many archived records to a single site has allowed us to develop a more organized approach to archival and retrieval.
- The continued growth of scanning and imaging allows for more instantaneous retrieval of return images, cutting down on the need for paper retrieval while speeding employee work.
- Contracting with the Department of Corrections for 1099 printing opened the door for using other departments' expertise to fulfill DOR requirements.
- Working closely with form vendors generates savings on booklet printing through use of their unique expertise.
- Maintaining a close working relationship with the US Postal Service keeps us informed of changes and has allowed us to take advantage of services not readily apparent.
- Maintaining relationships with other state revenue departments and the IRS through involvement in SEATA, FTA, TIGERS, etc. has generated innovations and better contract agreements with vendors due to the sharing of information.

Barriers

- The loss of expertise/knowledge and future leaders as a result of TERI and retirements continues to present management challenges.
- The trend continues with a growing number of large "Class C" bingo games which pay no bingo taxes and do not guarantee a return to the charities.
- There generally is no reimbursement to the agency for its role in assessing and collecting property taxes for local governments.
- Adoption of the Streamlined Sales Tax Model Act would simplify filing requirements for taxpayers and would help insure that use taxes would be collected on internet sales, catalog sales and other sales originating out of state.
- Increased training to provide technical skills and grow leaders for the future is needed.
- Expanded responsibilities and changing work territories result in an increased learning curve.
- State procurement rules inhibit supplier partnering.
- Upgrades to technology that are needed to improve revenue processing have a long project cycle.
- Inability to hire and retain some employees due to salary issues continues to be a challenge.
- Assimilating contract personnel to DOR's culture and values is challenging.
- Internet/Network security issues e.g. viruses, hackers, spyware all require resources to ensure DOR systems remain secure.
- Inability to work returned mail and not being able to find taxpayers hinders collection activities.
- It is a challenge to address the issues of the ever-growing non-English speaking population.
- The inability to share information with counties is hindered due to security issues.

- Complex laws lead to complex forms and greater difficulty for taxpayers to voluntarily comply.
- Backlog of mainframe work due to demand and beginning the move to another system has caused delays in implementing changes to decrease the workload for both DOR personnel and others.

How the Accountability Report is Used to Improve Organizational Performance
The Accountability Report has been used as a tool to capture the Department's strengths and opportunities for improvement. By identifying the opportunities and barriers, we are able to capture the most immediate needs of the agency. This, coupled with the self assessment which is realized as a result of preparing the report, allows us to focus on the vital few priorities for the coming year.

II. Business Overview

As of the end of FY 04-05, the agency had a total of 671.5 authorized full-time permanent slots. Of those, 653.5 are state funded and 18 are other-funded. These employees work in five offices throughout South Carolina and six major metropolitan areas across the United States. We also supplement our five main offices by staffing eighteen "satellite" offices periodically throughout the month. Our permanent workforce has been supplemented by approximately 67 non-seasonal temporaries and up to 100 seasonal temporary employees during peak months.

Accountability Report Appropriations/Expenditures Chart
Base Budget Expenditures and Appropriations

	03-04 Actual Expenditures		04-05 Actual Expenditures		05-06 Appropriations Act	
Major Budget Categories	**Total Funds**	**General Funds**	**Total Funds**	**General Funds**	**Total Funds**	**General Funds**
Personal Service	$21,492,219	$20,376,458	$23,993,611	$23,445,225	$26,322,836	$24,926,836
Other Operating	$10,960,723	$3,152,265	$20,009,838	$5,478,654	$16,537,329	$6,796,595
Special Items	$1,125,000	$0	$1,125,000	$0	$0	$0
Permanent Improvements	$92,000	$0	$220,877	$69,000	$0	$0
Case Services	$0	$0	$0	$0	$0	$0
Distributions to Subdivisions	$0	$0	$0	$0	$0	$0
Fringe Benefits	$6,052,785	$5,810,266	$6,788,385	$6,624,793	$7,876,234	$7,615,968
Non-recurring	$0	$0	$0	$0	$0	$0
Total	**$39,722,727**	**$29,338,989**	**$52,137,711**	**$35,617,672**	**$50,736,399**	**$39,339,399**

Other Expenditures

Sources of Funds	03-04 Actual Expenditures	04-05 Actual Expenditures
Supplemental Bills	$0	$0
Capital Reserve Funds	$0	$0
Bonds	$0	$0

Interim Budget Reductions

Total 03-04 Interim Budget Reduction	Total 04-05 Interim Budget Reduction
$298,566	$0

Major Program Areas

Program Number and Title	Major Program Area Purpose (Brief)	FY 03-04 Budget Expenditures	FY 04-05 Budget Expenditures	Key Cross References for Financial Results*
I.A Administrative & Program Support	Agency administration and Internal Audit functions	**State:** 638,204 **Federal:** 0 **Other:** 2,716 **Total:** $640,920 **% of Total Budget**: 2%	**State**: 674,969 **Federal:** 0 **Other:** 210 **Total:** $675,179 **% of Total Budget**: 1%	
II.A Programs & Services—Support Services	Personnel, Training and Development, Quality, Procurement & Facilities Mgmt., Budget & Finance, Information Resource & Technology Management and computerized systems management functions	**State:** 6,156,905 **Federal:** 0 **Other:** 5,721,756 **Total:** $11,878,661 **% of Total Budget**: 28%	**State:** 8,301,153 **Federal:** 0 **Other:** 8,363,841 **Total:** $16,664,994 **% of Total Budget**: 28%	7.3.3
II.B Programs & Services – Revenue & Regulatory Operations	Audit & Collection functions, Property Tax Administration and appraisal, and Regulatory (Alcoholic Beverage Licensing and Bingo) Administration	**State:** 15,642,151 **Federal:** 0 **Other:** 4,174,888 **Total:** $19,817,039 **% of Total Budget**: 47%	**State:** 18,805,454 **Federal:** 0 **Other:** 4,043,058 **Total:** $22,848,512 **% of Total Budget**: 39%	7.2.1, 7.2.2, 7.3.1, 7.3.2, 7.5.7
II.C Programs & Services – Legal Policy & Legislative Services	Agency General Counsel; sets tax policy, represents the agency in litigation, bankruptcy matters and the legislative process	**State:** 1,091,463 **Federal:** 0 **Other:** 241,859 **Total:** $1,333,322 **% of Total Budget**: 3%	**State:** 1,211,303 **Federal:** 0 **Other:** 335,105 **Total:** $1,546,408 **% of Total Budget**: 3%	
III.C Employee Benefits – State Employer Contribution	Employer share of fringe benefits paid on state employee salaries	**State:** 5,810,266 **Federal:** 0 **Other:** 242,519 **Total:** $6,052,785 **% of Total Budget**: 14%	**State:** 6,624,793 **Federal:** 0 **Other:** 163,591 **Total:** $6,788,385 **% of Total Budget**: 12%	

Below: List any programs not included above and show the remainder of expenditures by source of funds.

Agency incurred expenditures in the amount of $17,966 during FY 03 related to the settlement of the Littlefield v. SC Forestry Commission class action lawsuit. Those expenditures were recorded in a separate program, not listed above.

Remainder of Expenditures:	**State:** 0 **Federal:** 0 **Other:** 0 **Total:** $0 **% of Total Budget**: 0%	**State:** 0 **Federal:** 175,621 **Other:** 3,438,612 **Total:** $3,614,233 **% of Total Budget**: 6%

* Key Cross-References are a link to the Category 7 – Business Results. These References provide a Chart number that is included in the 7th section of this document.

Below is a complete listing of our major customer and stakeholder groups and the various methods we employ to address their requirements and build lasting positive relationships.

All stakeholders
Publications and brochures
Taxpayer Assistance Officers
Taxpayer Advocate
Taxpayer Education
Problems Resolution Office
Automated Tax Help Line
FormsFax and Web Forms
Email systems
Five Regional Offices
Satellite office hours at **18** locations in SC
Award-winning web site
Summary of current year's new tax legislation
Policy document listserve
MySCTaxes project 1.2
Experts on TV
Speakers Bureau/Public Speaking/Toastmasters
Direct Check, epay projects
Credit card payment options
Contact – Customer Research Center project
Elected Officials
Revenue collection and reporting
Legislative liaisons
Drafting assistance
Courtesy calls
Constituent services
Proactive response to issues
Other state agencies
Revenue collection and reporting
SCBOS
JDC workshops with Commerce
MySCGov.com coordinating payment modules and publications
Dyed Fuel Program
Use Tax compliance information
Check stuffers at filing time
Seats in our training sessions
Statewide Training Coordinators Group
GEAR
Debt set-off program
Individual taxpayers
Forms drive through
VITA volunteers
Publications for new residents, military, college tuition credits
SCNetFile, web extensions and declarations
Outreach to high schools, vocational schools, prisoners re: filing taxes
Fastfile outreach
Business taxpayers
Sales tax listserve
Various workshops
SCBOS/DORBOS
JDC workshops
Business development
Economic Incentives book
Corporate Income Tax summary published with the Bureau of National Affairs

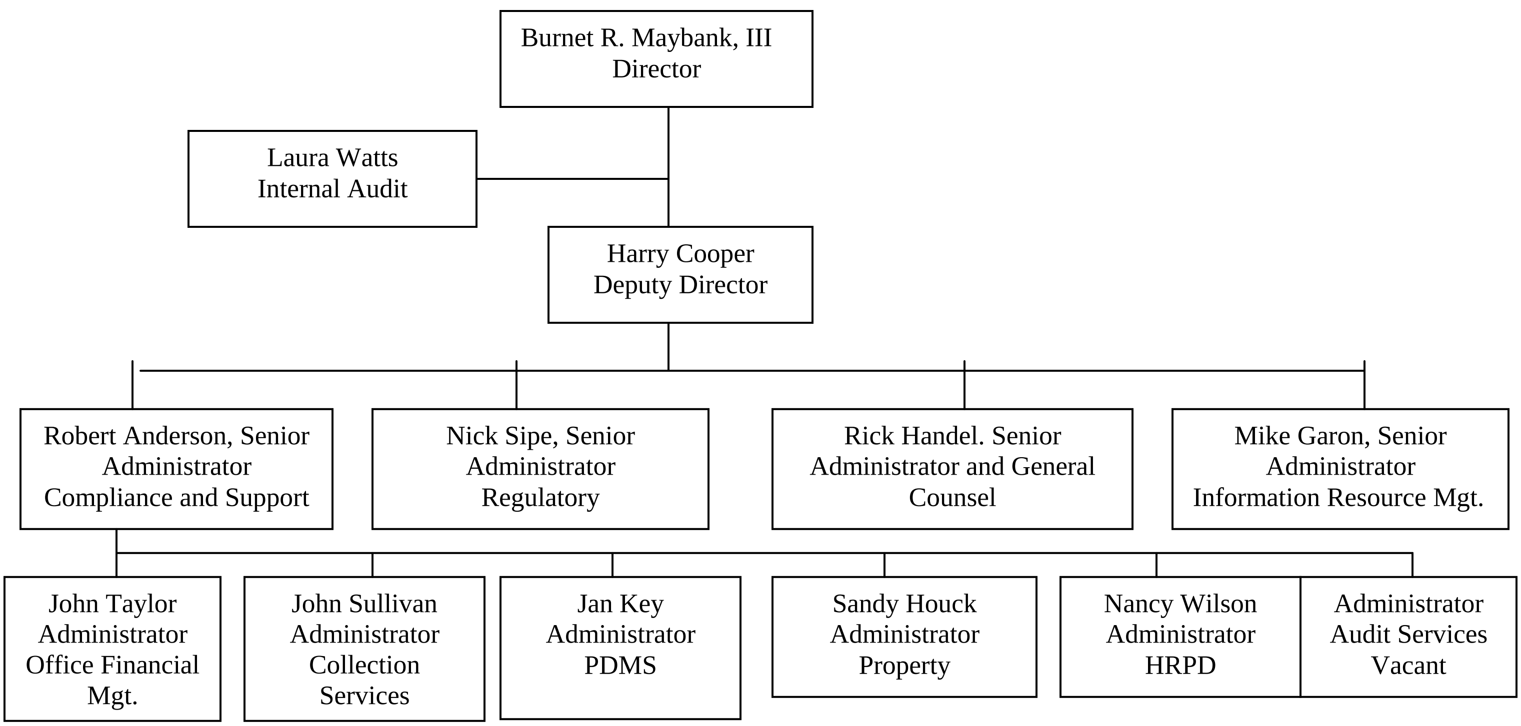
Special efforts related to sales tax holiday
Special efforts related to the 1% exemption on food
Tax practitioners
Forms design teams
Joint seminars with IRS/ERO
White-collar crimes course
Articles in the CPA newsletter
Speakers at CPA seminars
Fed/State filers' handbooks
Regulated Businesses (bingo, alcoholic beverages); ABL tracking process
Bingo processing system
Bingo paper rules
Statewide property taxpayers (e.g., manufacturers, motor carriers, utilities, car lines)
Changes to FILOT (Fee In Lieu Of Taxes)
Adding BPP (Business Personal Property) review
Streamlining Motor Carrier Property Tax administration
Local Governments (property tax administration, local option taxes, index of taxpaying ability, exemptions);
Refund offset
GEAR
CAMA
Motor Carrier Audits
FILOT
Motor Vehicle Assessment Guides
Visits to counties
Seminars sponsored for county officials
Focus groups on processes affecting counties
Adding listserves for policy documents/comment
Federal Government
IRS refund offset
IRS Fed/state liaison
IRS classes
Streamlined sales tax initiatives
Other state governments
SEATA
FTA
Exchange of use tax information
Below the rack task force
Supply motor fuel training instructors nationwide
FTA listserves for internal audit, commissioners, training, and taxpayer education
Software developers
Product testing
Links to their web sites

Our key suppliers are the citizens of South Carolina who supply us with tax revenues and information. We also rely on the Employment Security Commission and other state and local governmental entities to supply required information. The Budget and Control Board's Office of Information Resources is a major supplier of technology infrastructure for the agency and the Department of Corrections provides for our bulk printing. Traditional suppliers include Dell Computers, forms manufacturers, and other suppliers of services and supplies.

The South Carolina Department of Revenue is also a regulatory agency. We administer 32 state taxes and numerous fee, credit, and exemption programs. We process over 7 million tax returns annually and collect over 94% of the state's general funds of over $7 billion. The agency also regulates and licenses retail establishments, bingo operations, and alcoholic beverage sellers. The agency is in direct contact with nearly every South Carolina resident and many non-resident taxpayers and corporations. We therefore manage our enterprise in a customer-focused, fair, and efficient manner.

Organizational Structure: Our organizational structure is shaped around core business competencies and support functions. The chart below shows that structure and leadership.

South Carolina Department of Revenue
Overview



III. Malcolm Baldrige Performance Excellence Standards
Leadership

1.1a - f Senior leadership in the agency consists of the Director, Burnet R. Maybank, III, a Deputy Director, Senior Administrators, and Administrators of each of the major operating units.

The agency's leadership sets, deploys, and communicates short and long term direction through the strategic planning process, the annual business planning component of that process, and the five-year business plans developed for agency level objectives. Additionally, each employee's Position Description and EPMS are tied to the agency's four key result areas. The strategic plan, which undergoes the five year review process this year, outlines our organizational values as described in the Executive Summary and include a focus on innovation, empowerment, knowledge, and ethical behavior.

1.2 In FY 04-05, the leadership continued its focus on both internal and external customers by supporting activities for progress on our 16 major goals and the various underlying projects that are tracked at the agency level. These goals, objectives and projects are tied numerically to the four key results of the strategic plan. Agency-level performance measures are likewise numerically tied to the key results. Management meets each Monday morning for reporting on these and other issues by our operating divisions.

Quarterly "dashboard" performance indicators are scheduled for review by the management team. Progress on each annual business plan objective is compiled and reported quarterly.

1.3 Both the chief financial officer and the internal audit staff are responsible for the accuracy and timeliness of reporting. We just completed the seventh year of agency audits that resulted in no adverse findings. Our chief counsel, administrator for our regulatory division and the internal audit staff have policies, procedures and measures in place to ensure that the Department maintains accountability to requirements. Our internal audit staff periodically conducts audits of various processes within the agency to ensure no improprieties exist. Additionally, employees are required annually to certify that they have read and understand the confidentiality and disclosure requirements. Each time an employee's computer is turned on, a reminder of confidentiality appears and action is required to proceed. These safeguards are employed to ensure no unauthorized information is revealed.

1.4 We continue to refine our set of high level measures (dashboard measures) that are reported on a quarterly basis. These measures, listed in 4.2, allow the leadership team to monitor the effectiveness and efficiency of the agency processes.

Additional measures are reviewed at the Deputy and division level. Performance measures track processes that show improvements and potential problems; track performance to specifications; and indicate processes needing change.

1.5 Quarterly coaching sessions with employees are utilized not only to review progress on objectives that are tied to our four key result areas, but also to obtain their feedback on the effectiveness of management throughout the organization. Our Leadership Development process is enhanced by the Leadership for Results program that 80 employees have participated in to improve leadership effectiveness. We also participate in and support the Certified Public Manager and Associate Public Manager programs, as well as the Executive Institute.

Our values represent our guiding principles or the things about which we care most as we carry out our mission. Senior leadership not only models these beliefs, but also clearly and consistently articulates these values throughout the organization. Our intent is to demonstrate these beliefs in all our dealings with our external and internal customers.

Our senior leaders have been trained in quality management principles, team leadership and performance excellence techniques. Leaders demonstrate their devotion to these principles by participating in training and teams and by using the quality tools and process.

1.6 Current and potential impact on the public for our products, programs, services, facilities, and operations, to include associated risks, has been integrated into our strategic planning process. See Category 2.

1.7 Priorities for improvement are determined by our strategic plan, performance measures, and subsequent annual objectives that tie to overarching five-year plans. See Category 2.

1.8 The agency supports and strengthens the community as well as demonstrates its public responsibilities and practices good citizenship in many ways. Public trust is a vital component of maintaining high levels of voluntary compliance with the state's tax laws. We assure ethical business practices proactively through policy and training. Several teams work annually (1) to ensure compliance with implementation of new statutes; (2) to identify suggested improvements to the laws; and (3) to communicate advisory opinions and regulations to assist taxpayers. Direct e-mail, the Problems Resolution Office, monthly interviews, and the Taxpayer Advocate are avenues for citizens to resolve concerns. Our Contact Center is utilized not only to help the taxpayer, but to gain invaluable input to processes of the agency. We continue to train our Contact Center employees and see this as an integral part of the agency's listening and learning approach to gain input from the community at large.

The agency continues to be a leader in the government community. The GEAR (**G**overnment **E**nterprise **A**ccounts **R**eceivable) and SCBOS **(SC B**usiness **O**ne **S**top) processes are but a couple of examples in which we have taken the leadership role. These projects have a direct positive impact on reducing the burden of compliance with our tax laws. We have also maintained a leadership role in the development of the Integrated Financial System which we plan to implement in DOR. On the state level, our employees lead or participate in multi-agency teams to improve the processes of government. We have trained not only our employees, but also many from other agencies on tax topics and quality improvement subjects to include how to prepare the Annual Accountability Report. We regularly facilitate teams in other agencies. We are actively involved with professional groups in leadership roles, such as the Federation of Tax Administrators (FTA) Best Practices and Benchmarking Team. Mr. Maybank is the Chairman of the Enterprise Zone Subcommittee; serves on the Coordinating Council for Economic Development; Member, South Carolina Board of Economic Advisors and is President of the South Carolina Agency Directors Organization. These collaboration efforts not only help us identify best practices, but also give us the opportunity to be a partner in continuously improving all governmental services for our citizens.

We partner with business groups, such as the State Chamber of Commerce, Municipal Association, Association of Counties, the Small Business Chamber, the Hospitality Association, the Manufacturers Association, the SC Hospital Association, and the SC Manufacturers Alliance, and others on joint projects and provide education to these groups. Our collaboration with state partners includes the Departments of Transportation, Health and Environmental Control, Commerce, Labor, Licensing and Regulation, and the South Carolina Education Lottery, to name but a few. We regularly serve as a pilot site with the Internal Revenue Service to bring taxpayer friendly programs to South Carolina citizens, such as issuing federal employer tax identification numbers. We frequently are called upon to make presentations to a wide variety of audiences about both taxation and our quality leadership approach.

Our agency actively supports many community groups and activities such as the United Way, the Good Health Appeal, and United Black Fund of the Midlands, Cooperative Ministries, the Red Cross, Harvest Hope Food Bank, the Ronald McDonald House, National Multiple Sclerosis MS150 bike tour, and our community schools.

Strategic Planning

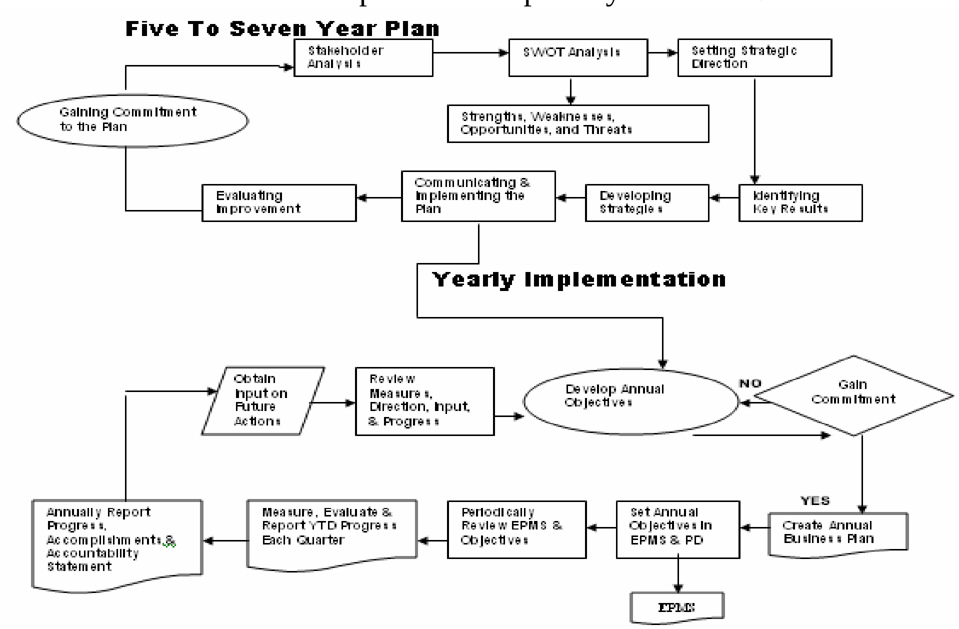
Program Number and Title	Supported Agency Strategic Planning Goal/Objective	Related FY 04-05 Key Agency Action Plan/Initiative(s)	Key Cross References for Performance Measures*
I.A Administrative & Program Support	Key Result 2 – Strong Stakeholder Relationships	2.3 Develop Seamless systems	N/A
	Key Result 3 – Efficient and Effective Agency and Enterprise Services	3.3 Implement Enterprise Debt Collection	7.5.6, 7.5.7
		3.4 Obtain an Integrated Financial System	N/A
II.A Programs & Services – Support Services	Key Result 1 – Maximize Compliance	1.2 Revolutionize Reporting	
	Key Result 2 – Strong Stakeholder Relationships	2.2 Stakeholder Education & Feedback	7.1.1, 7.1.4
	Key Result 3 – Efficient and Effective Agency and Enterprise Services	3.1 Performance Excellence for Efficient and Effective Processes	All measures in category 7
		3.4 Obtain an Integrated Financial System	N/A
		3.6 Drive One-Stop Business Registration	7.5.3, 7.5.4
II.B Programs & Services – Revenue & Regulatory Operations	Key Result 1 – Maximize Compliance	1.1 Find Nonfilers	7.2.1, 7.2.2
		1.3 Establish a Data Warehouse	N/A
	Key Result 2 – Strong Stakeholder Relationships	2.1 Promote eGov and eBiz	7.2.4, 7.2.5, 7.2.6
		2.3 Develop Seamless systems	N/A
	Key Result 3 – Efficient and Effective Agency and Enterprise Services	3.2 Upgrade our Technology Infrastructure	N/A
		3.3 Implement Enterprise Debt Collection	7.5.7, 7.5.8
		3.5 Become Enterprise Processor	7.2.7 – 7.2.15
II.C Programs & Services – Legal Policy & Legislative Svcs.			
III.C Employee Benefits – State Employer Contributions	Key Result 4 – Capable, Satisfied, and Diverse Work Teams	4.1 Workforce Planning	7.4.1 – 7.4.3

*Key Cross-References are a link to the Category 7 – Business Results. These References provide a Chart number that is included in the 7th section of this document.

2.1 The agency's strategic plan is the basis for both our long- and short-term planning processes. This is the final year of our current plan. On September 8, 2005 we began the process of a complete review of our strategic issues facing us in the next five years. Our strategic planning process gives us a future-oriented basis for business decisions, resource allocation and management, and helps us stay focused on those things that are important priorities for the agency.

We continue to keep focused on our customer and stakeholders through the SWOT portion of this process. It helps us identify our Strengths, Weaknesses, Opportunities, and Threats or risks that could impact our actions. This research and analysis process gathers input from employees, business and non-business taxpayers, elected officials from both state and local government, tax practitioners, media, other state agencies, government entities within the state, suppliers/contractors/partners and professional associations. The graphic below shows our Strategic Planning process.

Having all employees' position descriptions and subsequent evaluations tied to the strategic plan helps us address human resource and operational capability and needs.



2.2 and 2.3 As shown in the Strategic Planning Chart above, our plan includes four Key Results areas and their associated action plans. The Key Results are: Maximized Compliance, Strong Stakeholder Relationships, Effective and Efficient Agency and Enterprise Services, and Capable, Satisfied, and Diverse Work Team.

Each Key Result area then has associated objectives and action plans, as detailed in the chart on the previous page.

2.4 We develop our action plans through our annual business planning process. Each year, all natural work teams and project teams set objectives and action plans that target one or more of the strategies tied to the Key Result areas. Our Annual Business Plan addresses improvement opportunities at the team, operating division and agency level. Progress is reported quarterly. Planning is an annual process that we believe not only aligns employee efforts with the issues of most importance to our agency, but also helps us monitor progress and use resources wisely. We have supplemented the annual business planning cycle with a five-year planning process, that will be undertaken in FY 05-06, that better ties the strategic key results with our annual business planning. Our current five-year plan addresses 16 major initiatives we believe will focus our resources to better accomplish our key results.

The significance of aligning individual duties and accountability to the strategic plan is underlined through explicitly tying job duties to key results on each employee's position description and EPMS as mentioned in 2.1. In addition, quarterly coaching sessions occur for each employee during the EPMS process. Part of that coaching includes reinforcement of the key results and the employee's unique responsibilities that will help us better accomplish our mission.

These plans are then tracked through: (a) periodic presentations of the 16 objectives at the Monday management meetings; (b) quarterly year-to-date progress reports; and (c) quarterly review of the dashboard measures which tie to our key results areas.

2.5 The strategic plan is communicated in large group meetings with all employees and reinforced by sectional meetings within each division. In addition, other types of communication include other media such as e-mail, brochures, posters, and through communicating Monday morning meeting minutes in our *This Week* publication. For new employees, an orientation session called "DOR-101" educates employees to the agency, the strategic plan, and the strategic planning process.

2.6 A listing of our key results and objectives is located at http://www.sctax.org then click on the Strategic Plan button.

Customer Focus

3.1 Through our strategic planning process and implementation, the agency's key customers and stakeholders have been identified as those who use state revenues; the agencies that rely upon state revenues; individual and business taxpayers of the state; tax practitioners acting on behalf of those taxpayers; regulated businesses; statewide property taxpayers; local governments; elected officials; and federal, state and local governments. We define our customer groups by the products and services they require. This allows us to determine and fulfill our customers' key requirements by asking questions, defining terms, setting standards, and employing continuous improvement methodologies. Strategies are then built to address those requirements.

3.2 We continuously search for and employ customer-friendly feedback vehicles to listen and learn from our customers. Director Maybank instituted a number of advisory counsels to gain valuable customer and stakeholder feedback. These include; the DOR Advisory Board, the Alcohol Beverage Licensing Advisory Board, the Local Economic Development Advisory Board and the Hospitality Advisory Board. Our website is an avenue for our customers to provide feedback and access services. SCBOS, our internet registration and filing method, employs a feedback loop should a citizen wish to provide it. All notices that are sent by the agency contain a telephone number for customers to make inquiries and suggestions. Our annual Customer Satisfaction Survey conducted by the University of South Carolina is another vehicle for us to gain feedback from our customers. We also continue to utilize our Contact Center and Taxpayer Service Centers to gain insight from callers, walk-ins on problems, preferences, concerns and trends. Our monthly Sales and Use and Withholding Tax forms workshops, the Small Business Workshop and the various other taxpayer education session participants are encouraged to provide feedback via written evaluations upon conclusion of each class.

Annually, we are required to update our forms. Employee teams are formed each year to accomplish these updates, and focus groups are used to gain input for our Individual Income Tax. Sales and Use Tax, Corporate Tax, and Withholding Tax forms. This has proved invaluable in helping to build relationships and more importantly, gaining greater knowledge in the ever changing customer and business needs.

3.3 We view every complaint or comment as an opportunity to improve our services. Strategies for agency level objective 2.2 included holding a number of focus groups to get feedback on our sales tax forms and the My Taxes internet based taxpayer information system. As mentioned in 3.2, we look to the Advisory Boards, workshop participants and a wide variety of other stakeholders to help us keep our services relevant and to identify additional opportunities for improvement. Many of the enhancements, improvements and additions to our electronic means to deal with the agency come directly from customer and stakeholder trends.

As mentioned in 3.2 above, including feedback from tax practitioners, tax accountants, CPA's, and taxpayers for our forms design teams has proved invaluable in simplifying content and format of information on our tax forms.

3.4 The agency has employed several methods to collect customer satisfaction input and determine the strength of our relationships. These include:

- The monthly customer satisfaction interviews.
- The University of South Carolina's Institute of Public Service and Policy Research Biannual Survey of the South Carolina Public includes our annual satisfaction survey on overall service delivery, quality of information received, and the ease of the process. See Figures 7.1.1. and 7.1.4.
- Taxpayer education initiatives, such as our Sales and Use Tax Workshops, our Sales and Use and Withholding Tax Forms Workshops, and our Clemson Workshops are used in part to measure customer satisfaction and gain valuable input to our forms and processes.
- The use of focus groups when developing forms and notices help us ascertain when we are doing things well or poorly.
- The Taxpayer Advocate's Report is a measure of the number of types of complaints, the

resolutions of those complaints, and the processes that have been changed as a result.

3.5 We build positive relationships with customers and stakeholders in a number of ways as identified by the various groups and methods to address their particular needs detailed in the Business Overview. We understand that most taxpayers will voluntarily comply with the tax laws if the instructions are clear, understandable and simple. With the expansion of the capabilities of our business registration web site, SCBOS, we have made it easier to start a business in South Carolina and provide the information needed to get the right business licenses and set up tax accounts. We are partnering with multiple entities as members of the Executive Team for this project. These are Secretary of State's office, Employment Security Commission, Department of Health and Environmental Control, Department of Labor, Licensing, and Regulation, and Department of Revenue, Office of CIO (Budget and Control Board), Department of Commerce, S.C. Chamber of Commerce, S.C. Association of Counties, and the Municipal Association of S.C. The establishment of this joint electronic business registration has proved extremely successful. Virtually all of our customer comments related to the process have been extremely positive.

The agency holds workshops to update taxpayers on tax law changes and forms revisions (i.e., Clemson Individual Income Tax Workshops, Small Business Workshops, and Sales and Use Tax Workshops). Additionally, workshops are scheduled with local government officials, county auditors, treasurers and assessors to address new tax legislation that affects these entities. Other regional workshops are conducted on a variety of tax matters. These workshops allow us to gain valuable input to our processes as well as help to build positive relationships with these customer groups.

The agency has structured ways in which to educate and be responsive to the various needs of our customers. In addition to recorded and personal telephone assistance, responding to mail and e-mail correspondence offered on our website, the Department provides:

- News releases for information of general interest to the public and information letters for information of general interest to tax professionals;
- Advisory opinions providing the formal policy statements of the Department;
- Brochures for taxpayers, including:
  - *Moving to SC: A Tax Guide for New Residents*
  - *Guide to College Tuition Tax Credit*
  - *SC Sales and Use Tax*
  - *Southeastern States Exchange Agreement for Sales and Use Tax Compliance*
  - *Your Rights as a South Carolina Taxpayer*
  - *A Guide to SC Admissions Tax*
  - *A Homeowner's Guide to Property Taxes*
  - *Starting a Small Business in South Carolina*
- Publications for business tax professionals include:
  - *S.C. EFT Program Guide*
  - *Computer Assisted Audit System (CAAS)*
  - *South Carolina Department of Revenue Legislative Update* (each year)
  - *South Carolina Tax Incentives for Economic Development* (each year)

South Carolina Corporate Income Tax (also published as Tax Management Multistate Tax Portfolio #2280 by the Bureau of National Affair)
The South Carolina Taxation of Limited Liability Companies (also published as part of a book entitled *South Carolina Limited Liability Companies & Limited Liability Partnerships* by the South Carolina Bar)
South Carolina Property Taxes (each year; also published as part of a book entitled *The Property Tax Deskbook* by the American Bar Association)
Deed Recording Fee — Reference Manual

All above material is available on the Department's web site and all of the material for tax professionals is sent to them through a listserve.

Our web site's frequently asked questions section also answers taxpayer questions. Each April, citizens greatly appreciate the agency's "forms drive-through" service at the Columbia office, which allows taxpayers the ability to pick up their state and federal tax forms without leaving their automobiles.

We offer a variety of methods for customers to file taxes, obtain forms and register a business. Our web site allows for certain tax filings and credit card payments, business registration, answering questions, and both current and past year tax forms are available. Also available via the web site and our Refund Hotline is refund status information. Internet filing is available for Individual Income Tax and Sales Tax as is the touch-tone telefile program that utilizes touch-tone phones for business sales and withholding ($0) filing.

The method of defining our customers by the various products and services we deliver has proved to be extremely helpful in differentiating between our numerous customer groups. Our industry specific sales and use tax workshops were developed to address a particular industry's concerns.

Information and Analysis

4.1 The agency leadership has long reviewed all types of data to ascertain the progress made in our operations, processes, and systems. Our key or "dashboard" measures are detailed in 4.2. These measures were synthesized from over 120 department measures, many of which continue to be reviewed at the operational versus executive leadership level. These measures were agreed upon by the leadership team as those that would provide an overall picture of the "health" of the agency. They are reviewed on an annual basis to ensure that they are still appropriate and adequate to manage the agency.

4.2 Our agency dashboard performance measures align numerically to the agency strategic plan. The listing follows:

Dashboard Measures

Key Result 1 Measures	**Key Result Number**
Total Collections (% last year)	KR 1 – V
Total Enforced Collections (%last year : %	KR 1 – U

projection)	
Budget to Projections – BEA	KR 1 – T
Key Result 2 Measures	
Contact Center – Abandoned Call Rate	KR 2 – DB5
Contact Center – Response Time	KR 2 – DB6
Contact Center - # Calls by Tax Type	KR 2 – DB7
Customer Satisfaction Survey Results	KR2 – H
Achievement of Minority Business Goal	KR2 – DB36
Refund Cycle Time – IIT Paper	KR2 – E1
Refund Cycle Time – IIT Electronic	KR2 – DB16
Refund Cycle Time – Sales	KR2 – A
Refund Cycle Time – Withholding	KR2 – B
Refund Cycle Time – Corporate	KR2 – C
Key Result 3 Measures	
Cost per Dollar Collected	KR3 – D
% of IIT Returns Received Electronically	KR3 – R1
% of Sales & Use Tax Returns Received Electronically	KR3 – R2
% Dollars Deposited Electronically	KR3 – B
Deposit Opportunity Cost	KR3 – T
Total Number of Transactions/Returns Processed	KR3 – N
Debt Collected by Setoff	KR3 – O
Key Result 4 Measures	
Voluntary Resignations	KR4 – F
Average Sick Leave Used Per Employee	KR4 – K
EEO Parity Rate	KR4 – DB35

The agency continues to utilize these measures in the senior leadership appraisal system as they are aligned with the strategic plan and the managers' areas of responsibility.

4.3 Measures are reported on by use of a standardized format that states the related key result, measure type (input, output, outcome); location of the data and charts; averages for the last five years, goals for this year; goals for five years hence; individual held accountable for the data; definitions; data sources; description of why the measure is important; factors that affect performance; analysis of current performance; and an image of the current performance chart. All dashboard measurement data is located in the "shared" directory of our Local Area Network and is accessible to our employees. This year, an independent security audit was completed on our computer systems to help maintain data integrity, accuracy, and security ensuring the reliability of data used for decision making.

4.4 Many of our performance measures are geared to customer expectations. We realized early on that we would need to develop measures that allowed us to make sound business decisions.

Director Maybank put his job "on the line" with his proposal to the General Assembly to receive an additional $90 million dollars to hire audit and collection personnel lost in the reduction in force of 2001 to collect an additional $90 million. The agency provided Director Maybank the data to ensure that the money was available for collections and he was confident in our abilities to do so.

We understand that issuance of an individual income tax refund is often the only contact that taxpayers have with the agency. A short refund cycle is a key indicator of customer satisfaction. The improvements in refund cycle time for our individual income tax and sales tax processes are attributable to electronic filing initiatives, process improvements, and resource allocations based on the analysis of data. Results of these improvements are detailed in the Business Results section, Figures 7.1.2, 7.1.3 and 7.1.5. Despite this year's challenges, the individual income tax processing was completed May 16, the earliest completion ever, thereby saving temporary staff salary expenses over last year of $3,074.34 as well as better satisfying our customers. Another measure is the timely deposit of revenue. Our external customers, including the Governor, the Treasurer, and General Assembly, expect the agency to deposit revenues timely to maximize earnings on investments. See Figure 7.3.3.

The agency continues to monitor electronic fund transactions and electronically filed returns; both allow us to reduce processing costs. The Department continues to be a leader among the states in a number of areas. The latest available information from the Federation of Tax Administrators placed South Carolina tied for eight with Ohio, Idaho and Montana. South Carolina's percentage of 52% trailed Iowa (64%), Minnesota (63%), Wisconsin (59%), Michigan (58%), California (57%), Nebraska (54%) and Arkansas (53%). (Figure 7.2.4). Of note is that electronic filing is not required in South Carolina, but is required in some other states for certain taxpayers. With that in mind, maintaining our position as leaders in this area is a substantial accomplishment. Promoting electronic filing and payment has been a significant cost and time saver for the Department, the State, and the taxpayer. Our total electronic payments average over 65.08% per month of total deposits. See Figures 7.3.4 – 7.3.5.

4.5 We participate in the Federation of Tax Administrators benchmarking project to gain comparative data. While there are only seven revenue agencies from around the country participating, we continue to encourage others to join our effort. Currently, we are reporting measures related to stakeholder satisfaction, efficiency and compliance. These measures give us an accurate reflection of our operating position in comparison to other revenue agencies.

4.6 Leadership development and knowledge transfer are key parts of our strategy. A significant portion of our exiting TERI's and five-year retirement folks are managers or supervisors. For a number of years now, DOR has invested in cultivating our leaders of the future. We participate in the Associate Public Manager Program, Certified Public Manager Program, and the Executive Institute on the state level. On the agency level, we designed and implemented a leadership development process for potential leaders who are younger in their careers and who are spread across the spectrum of our agency functions. We are currently in the second year of this successful program with the second group of 40 employees in this class. This investment has already paid off for our agency.

We also use our electronic means that allow employees to keep abreast of the information and data that is compiled. Our "shared" directory and internal web site, Dragnet, contains a wide variety of information to include a succession planning manual and documents. These documents are completed by employees to allow for the seamless transfer of knowledge.

Human Resources

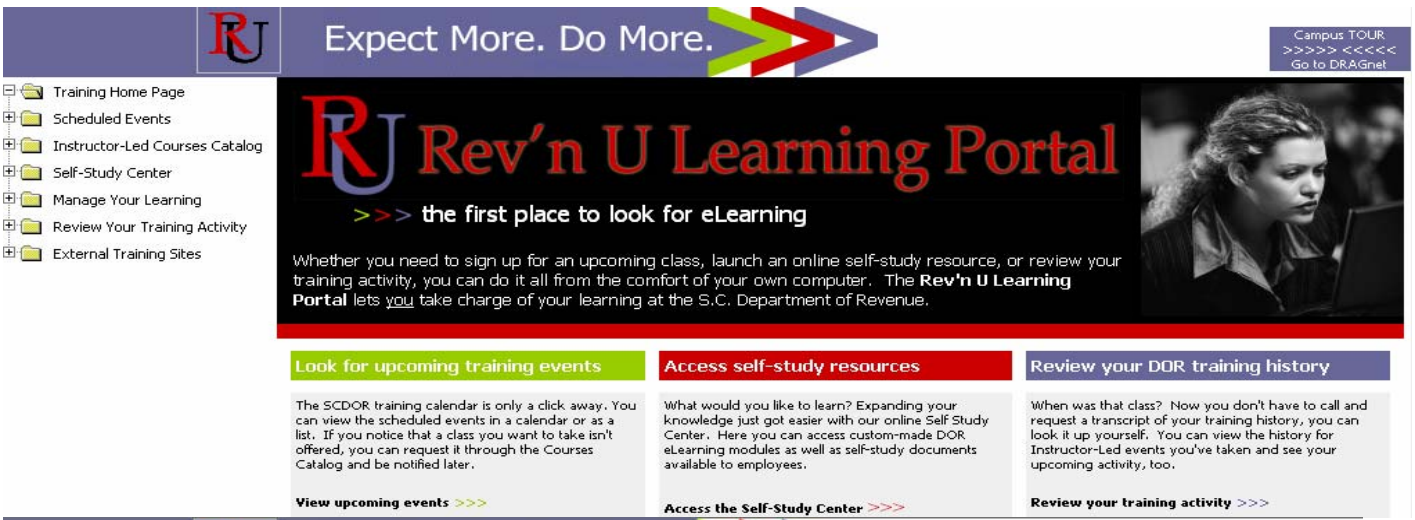
5.1 The agency is organized in each division and section by natural work teams that have specific responsibilities. These teams are empowered to cross team and division lines to communicate issues and collaborate. Cross-divisional work teams are appointed to work on substantive improvements and implementation that are projects identified through the annual business planning process and tie to one of the four key results of the strategic plan. The talents and initiative of our employees are the ultimate keys to our success. The use of teams from the process under study, encourages and motivates employees to solve problems and make continuous improvements.

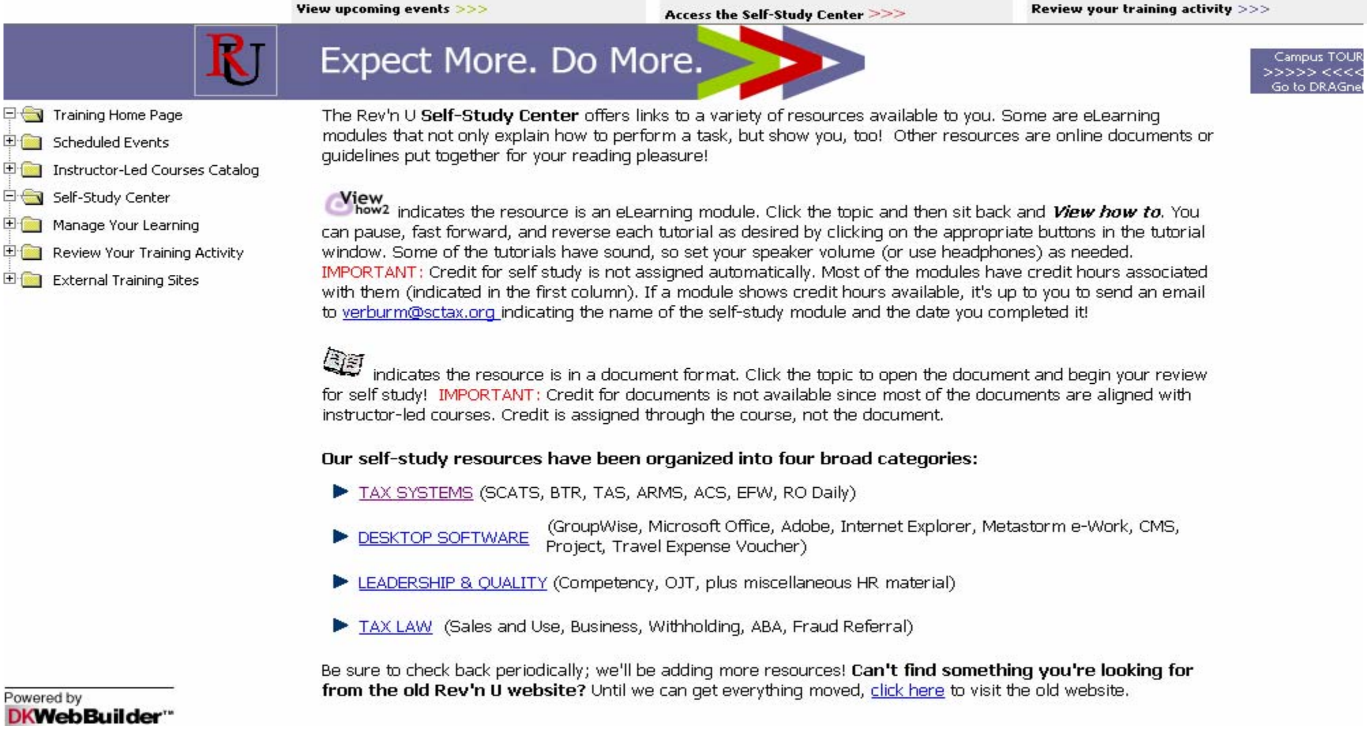
All Position Descriptions are written to tie directly to the mission of the organization. All EPMS documents have been rewritten to tie directly to our strategic plan. In addition, many of our non-management workforce have a Job Development Plan that ensures progression in knowledge and skills and encourages employees to develop their potential. The majority of these plans reside on our intranet, Dragnet. See below:

The agency has committed to provide state-of-the-art computer equipment by "bulldozing" every two years with leased equipment. This process will take place again between December 2005 and January 2006. We also provide up-to-date software to our employees to give them the tools they need to best serve our customers.

Our weekly publication, *This Week*, keeps employees informed about happenings in the agency, as well as provides a summary of weekly executive staff meetings, relevant data, upcoming events, and employee news.

5.2. We continue to focus on e-learning available through Rev'n U to provide just-in-time training without travel costs. We have developed a wide array of general tax and tax specific "on-the job" course modules available for on-line users. See our Rev'nU Learning Portal below.





When traditional classroom training is utilized, it is augmented with accelerated learning techniques. We have both a technical training initiative and a quality and leadership initiative.

Additionally, all of the methods and materials listed in 3.5 to education our customers are also available and used to train our employees.

Our formal Job Development Plans for the non-management workforce requires development of specific skills and duties. Teaching and training are required for certification and progression to the highest step of each plan. Each employee can reach the top of the individual plan with dedicated effort.

We provide full tuition reimbursement for our employees seeking a higher education. Our variable work week or work hour options assist those interested in completing accounting hours or degree requirements to qualify for entry into another job area in our agency.

The agency has long held a leadership role in the state for our quality improvement and leadership training. For the last 16 years we have introduced our employees and many from other agencies to the quality tools and process through our quality and leadership training plan. Two sessions are offered each month, allowing participants flexibility in scheduling. An on-line version of each of the modules was purchased so that participants who could not attend a session have the opportunity to learn the concepts. A total of 80 employees have now attended this program with the goal to develop leaders at all levels of the agency.

Additional training opportunities the agency endorses include: Regional and national tax administrator courses, Motor Fuel task force classes (as trainers and participants), CPE Training; Tax Law, Technical Skills, quality and leadership training; Certified Public Manager; Associate Public Manager; and the Executive Institute We also offer the John T. Weeks Scholarship for employees' children as well as employee tuition reimbursement. When new employees are hired, we introduce them to the agency through our orientation course, DOR 101.

5.3 The agency's approach to managing employee performance is through formal quarterly EPMS coaching sessions. All employees' planning stages include specific ties to the agency strategic plan; therefore these sessions allow for a free exchange of information to support continued high performance within the agency. Other successful components of our performance management system include: training development plans, universal review date for managers that ties to the timeline of the annual business plan, and formalized succession planning.

5.4 Employee well-being and satisfaction is a significant indicator of return on our investment. Our measures include results of focus groups, exit interview feedback, turnover, absenteeism, and grievance statistics. We couple the diversified state benefits package with other initiatives that have proven successful, such as ongoing health screenings and stress reduction programs, basketball equipment, and a reading group. Tuition reimbursement and variable work week or work hour options assist employees in balancing their lives and professional development needs. The availability of a laundry pickup and delivery service has been well received. The Employee Assistance Program is available to all employees. Formal appreciation events included our 9/90, 90th birthday, and employee appreciation barbeque lunch and birthday cake celebration held by management for all employees June 22. Additionally, all employee pizza lunches were conducted in March and April. Our Lunch with the Director program, and our Director's

Shining STAR reserved parking space continue to be popular recognition options. Many work groups organize their own recognition celebrations on an ongoing basis.

5.5 Initiatives in this area include: ergonomics and air quality studies; health screenings, flu and pneumonia shots, walking club, weight loss club, CPR training and on-site mammography as well as blood donation opportunities on-site. We developed a Business Continuity Plan that is updated periodically to address workplace preparedness for emergencies and disasters.

5.6 Community involvement initiatives include: United Way, Good Health Appeal, savings bonds, Lunch Buddies in public education, United Black Fund of the Midlands, blood drives, and Cooperative Ministry's Back-to-School Supply Drive. We regularly encourage and recognize individual community involvement and professional involvement.

Process Management

6.1 – 6.4 The agency is aligned to its identified core processes. Below is a table identifying these processes. (Figure 6.1.1) **Note:** Support processes are included in the Administration category. All products and services, which are either in place or to be designed, link to one of the core processes. The agency was introduced to a process whereby customers/stakeholders are defined by the products or services they receive, whether they are internal or external customers/stakeholders. This design and delivery model (Figures 6.1.2 and 6.1.3) forces us to look at how we can incorporate new technology along with changing customer and mission related requirements and has given new insight to help us develop and implement appropriate improvements to our process. This model is the way in which we review all of our current processes for improvement opportunities or design new processes. It shows how we ensure customer/stakeholder involvement.

Core Processes	Sub-Processes	Stakeholders
Revenue Processing & Allocation	Forms Design and Management Mail Processing Records EFT/EDI Electronic Filing/Payment Enforced collections deposits/cash management Payment Processing Return Processing Refund Processing Data Collection Data Management Data Dissemination Statistics Revenue allocation Local Option Taxes Property Taxes Motor Fuel Taxes Dry cleaning $9 million road/gas fund Accommodations Tax	Elected Officials Other state agencies Governments Non-Business Taxpayers Business Taxpayers Practitioners Citizens Comptroller General

	Index/Ratio Lists of corporate officers	
Registration, Licensing, and Exemptions	Registration Licensing Code Enforcement Determine Exemptions Oversight Local Government Assistance Question Answering	Elected Officials Other agencies Governments Business Taxpayers Practitioners Citizens
Valuations	Manufacturing Property Utilities, carlines Business personal property FILOT Motor Vehicle guides Motor Carrier	Local Governments Department of Public Safety Department of Transportation
Compliance	Audits Data Reconciliations Collections Code Enforcement Process Regulatory Violations Criminal Investigations/Prosecutions Assist Other Agencies/Governments	Elected Officials Other state agencies Governments Non-Business Taxpayers Business Taxpayers Practitioners
Guidance, Education, Marketing, and "Answers"	Policy Decisions Problems Resolution Contact Center Taxpayer Assistance Officers Speakers Bureau Taxpayer Rights Advocate Training Rev'n U DOREE Publications New Legislation Guide Annual Report Teletopics Legislative Affairs Press Releases Forms Policy Documents Assist Other Agencies Local Government Liaison Provide Statistics/Data Education and Training	Elected Officials Governments DOR Staff Non-Business Taxpayers Business Taxpayers Practitioners Citizens
Dispute Resolution	Mediation Negotiations Error and Assessment Notices Error & problem resolution Taxpayer Advocate Appeals ALJ and court cases	Elected Officials Governments Non-Business Taxpayers Business Taxpayers Practitioners
Administration	Human Resources Planning and Development Information Technology Facility Management Financial Management	Elected Officials Governments Non-Business Taxpayers Business Taxpayers Practitioners DOR Staff

Fig. 6.1.1

Diagnosis Worksheet Instructions

Describe the system

1. Identify the product (and its producer) around which the symptoms/objectives seem to be centered.

   Product – A deliverable created by work activity. Products are nouns, countable, and can be made plural with an "s". Be as specific as possible. Examples include: PC repairs, purchase orders, financial audit reports, grant applications, strategic plans, etc.

2. Identify the end users of the product. End users are customers who actually use the product to achieve a desired outcome. They are the people we had in mind when we created the product.

3. Define the outcomes (results) expected of the product for the end user(s) and the producer.

4. List the key product attributes likely to be expected by the end user(s). Examples include easy to use, fast, simple, accurate, etc.

5. Describe the major steps of the process that produces the product.

Check Vital Signs

6. Does the product meet the end users expectations?
7. Is the product achieving the desired outcomes?
8. Is the process able to produce the product accurately?
9. Is the process able to produce the product in a timely manner?
10. Does the process take too long?
11. Does the process cost too much?
12. Is the process too complex?

Select Appropriate Change Process

Fig. 6.1.2

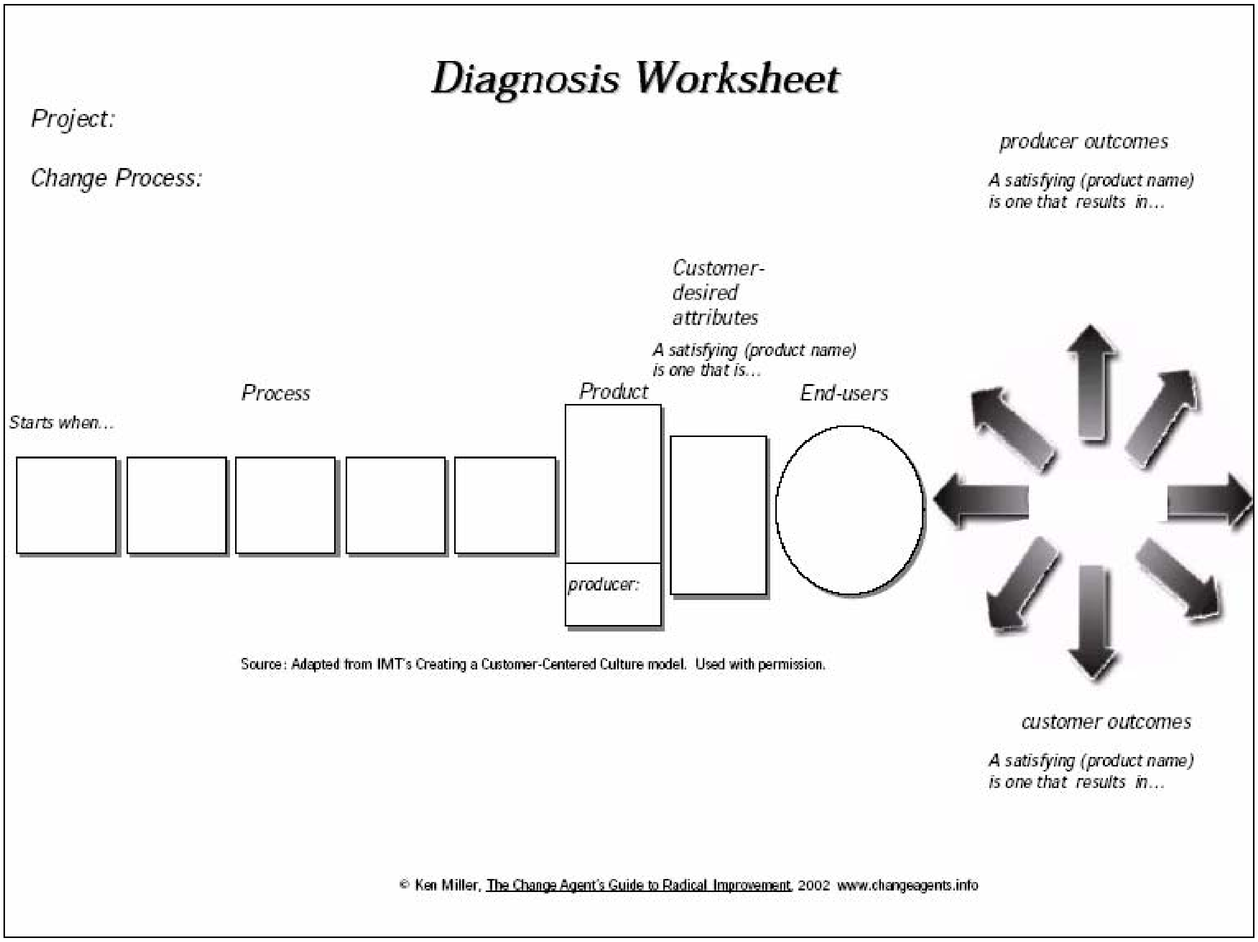


Fig. 6.1.3

Business Results

7.1 Customer Satisfaction Results The agency continues to use a market based survey conducted by the University of South Carolina to determine customer satisfaction with service delivery. The results of the survey (Figure 7.1.1) indicate that 91.6 percent of the time the agency met or exceeded the expectations with the service delivery. The trend over the past ten years continues to show positive results with our emphasis on customer service.

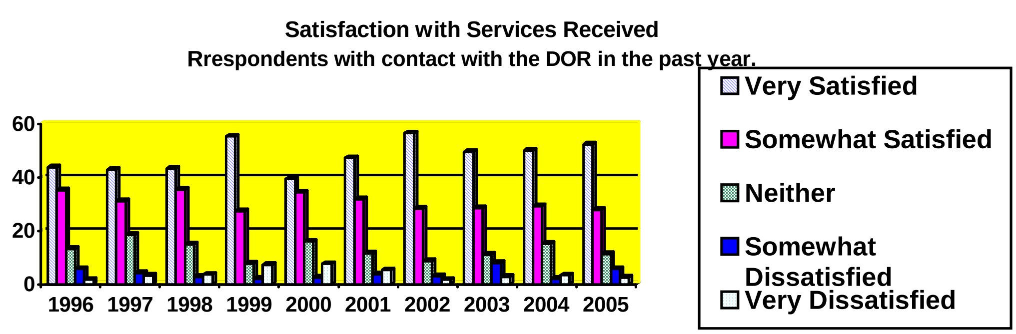
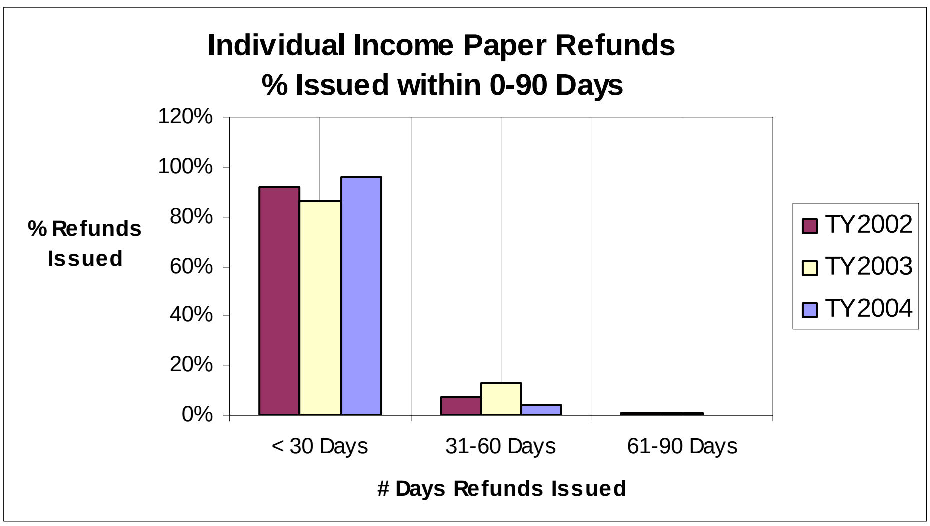


Fig. 7.1.1

Individual Income Tax filers are our largest customer segment. Receiving their refund quickly is their expectation and the DOR delivers. Figure 7.1.2 indicates that 99 percent of our income tax refunds are issued within 60 days from date of receipt in our Mail Center until the check is mailed or deposited (direct deposit). As of June 3, 2005, processed 868,301 paper returns. Over the past few years, many process improvements have been implemented to reduce the time it takes to process paper returns.

Our process times for 2005 (Tax Year 2004) are as follows: short form refund is 23.35 days and a long form refund is 23.57 days. Of the processing times listed above, seven days are included in those numbers to allow time for the check to be printed.

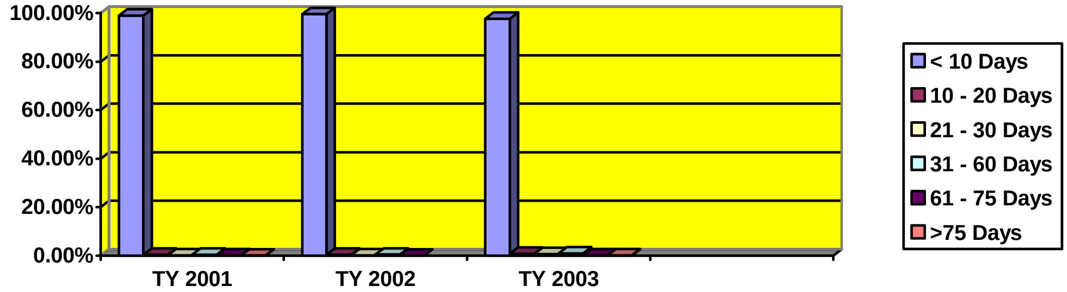
In our electronic processing, Figure 7.1.3, we continue to issue refunds in a most timely fashion. 99.7% of our non-paper refunds are issued in under ten days. The USC survey asks how satisfied respondents were with the refund cycle time, Figure 7.1.4 shows that they are once again satisfied 94.2% of the time for the same period. **NOTE: Individual income tax data is reported for the Tax Year, all other data is for the fiscal year.**



	TY2001	TY2002	TY2003	TY2004
< 30 Days	58.00%	92.00%	86%	96%
31-60 Days	39.00%	7.00%	13%	3%
61-90 Days	3.00%	1.00%	1%	
> 90 Days				

Fig. 7.1.2

IIT Refund Cycle Time Non-paper



FastFile---Refund Issuance Timeframe

Number of Days	TY2001	TY2002	TY2003	TY2004
<10 Days	99.00%	99.10%	97.67%	99.7%
10-20 Days	0.30%	0.39%	0.76%	0.2%
21-30 Days	0.10%	0.19%	0.60%	0.0%
31-60 Days	0.30%	0.17%	0.85%	0.0%
61-75 Days	0.03%	0.04%	0.05%	0.0%
>75 Days	0.01%	0.10%	0.06%	0.0%

Fig.7.1.3

Satisfaction IIT Refund Cycle Time

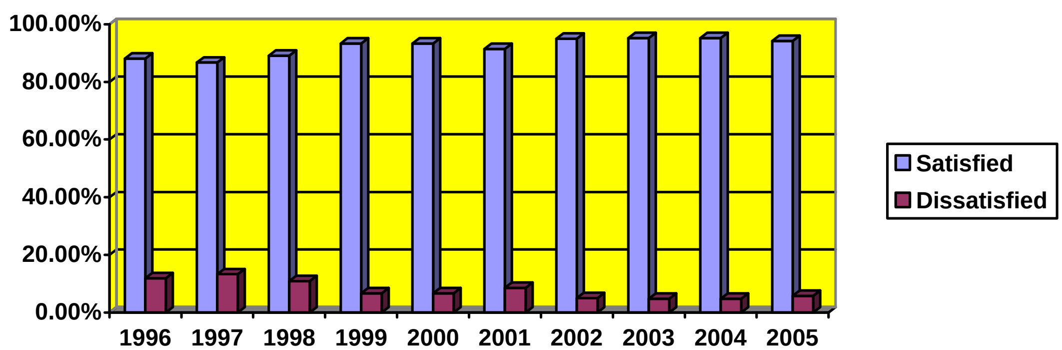


Fig. 7.1.4

Sales tax filers are our next largest customer group and again, refund cycle time is important to them as well. Figure 7.1.5 indicates our FY 04-05 average to issue refunds was 59.75 days, down from 78.16 for FY 03-04.

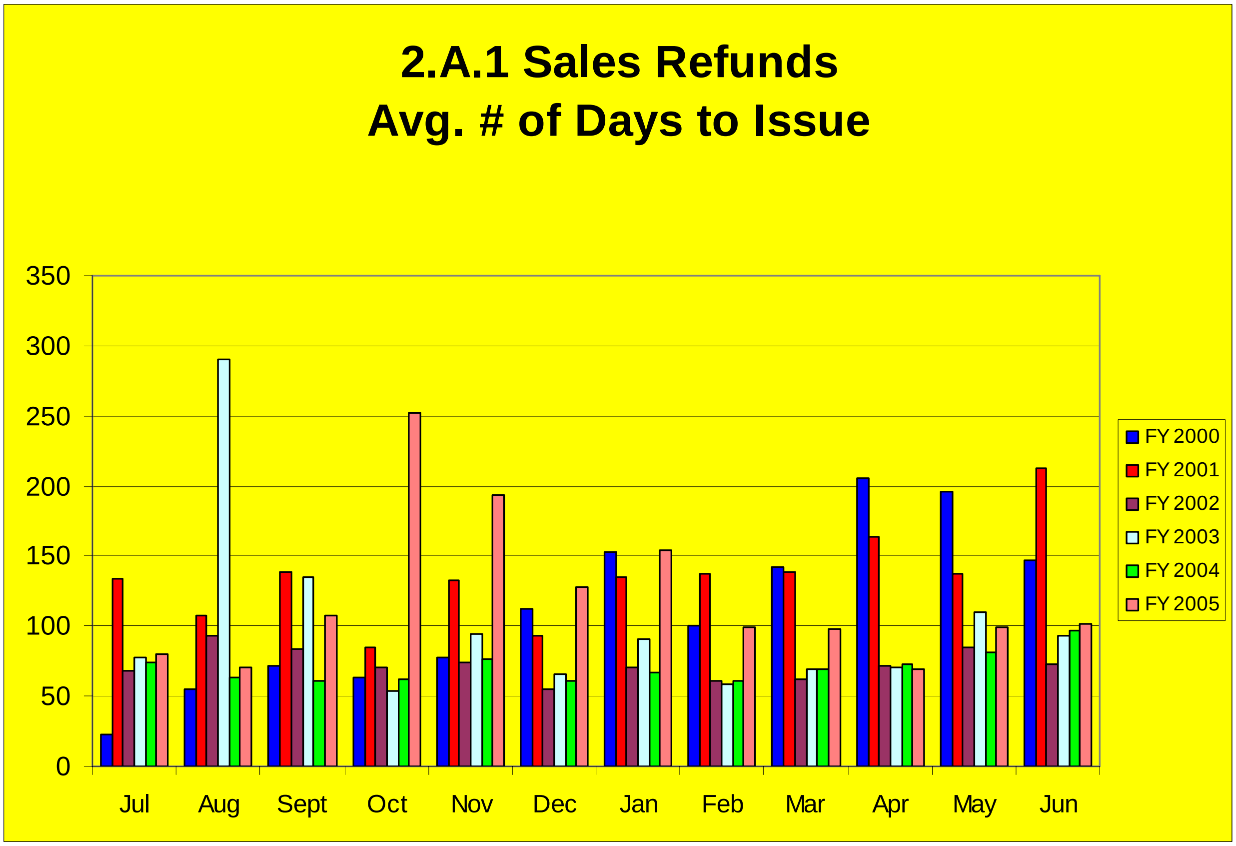


Fig. 7.1.5

Finally, measures of our General Contact Centers have a direct relationship to customer satisfaction. Figures 7.1.7 and 7.1.8 show how we compare to other states in our customer wait time to answer calls and the percentage of abandoned calls. For those states reporting, we rank second in the amount of time to answer a call and first in the percentage of abandoned calls.

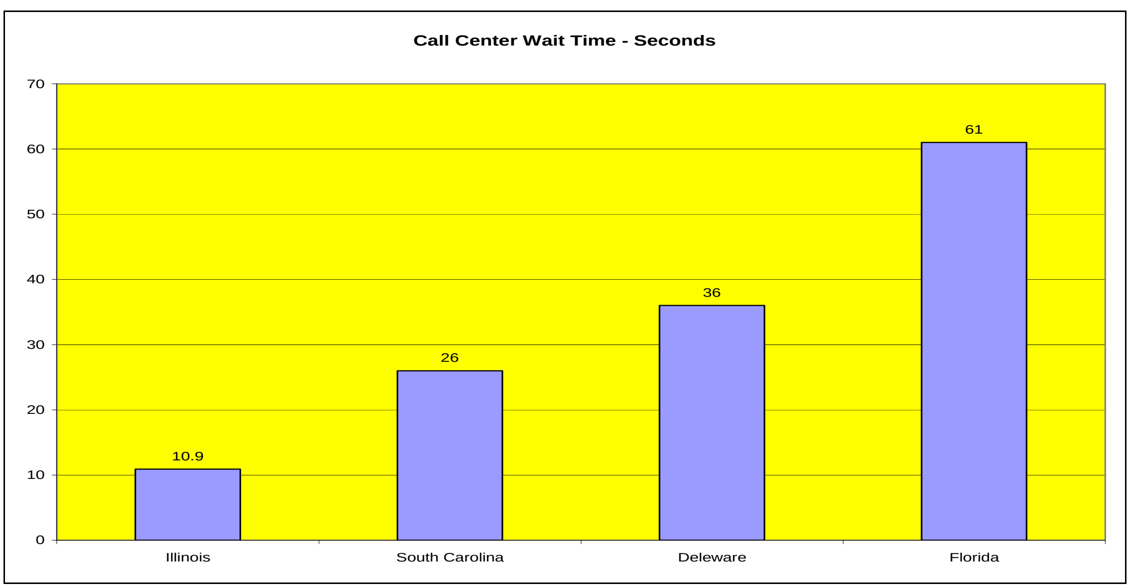


Fig.7.1.7

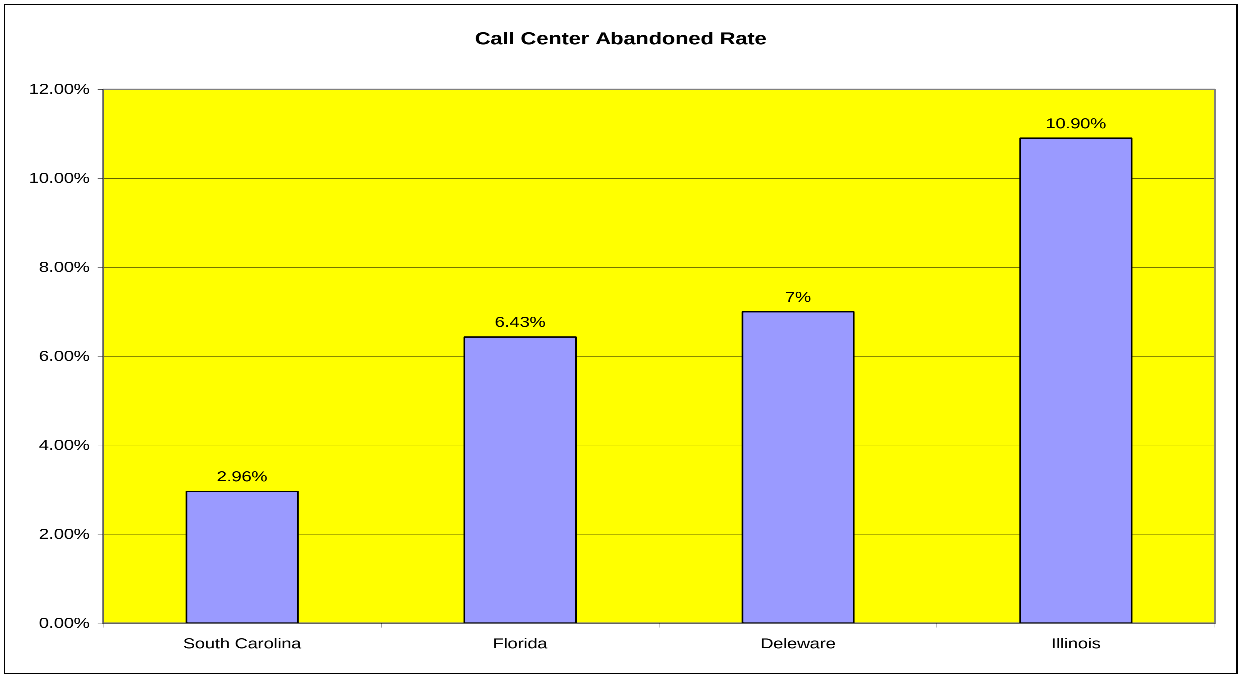


Fig. 7.1.8

7.2 Mission Accomplishment Category 3.1 lists our stakeholders and customers which include other state agencies, local governments, and the General Assembly. Our measures that deal with administering the revenue and regulatory laws of the state and collecting the revenue due the state are primary components of the assessment of how well we accomplish our mission. Figure 7.2.1 shows our collections over the prior fiscal years. For fiscal year 04-05 we increased our collections by 8.95% over the prior year.

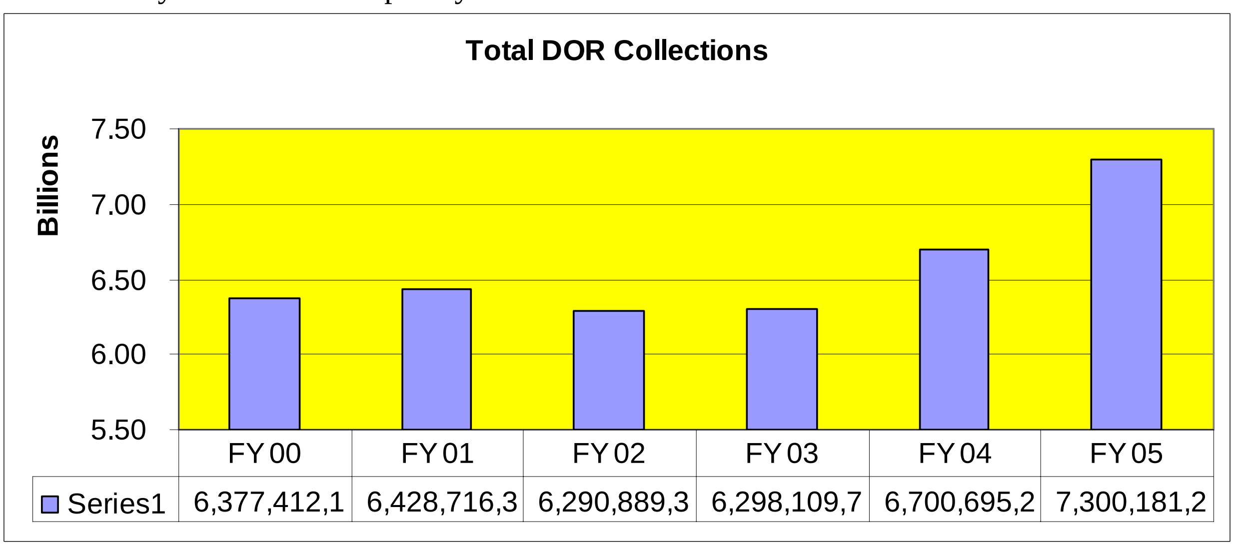


Fig. 7.2.1

Figure 7.2.2 shows the total of enforced collections over prior years. We experienced tremendous growth due to the $9M/$90M initiative of 42.6% increase from last fiscal year.

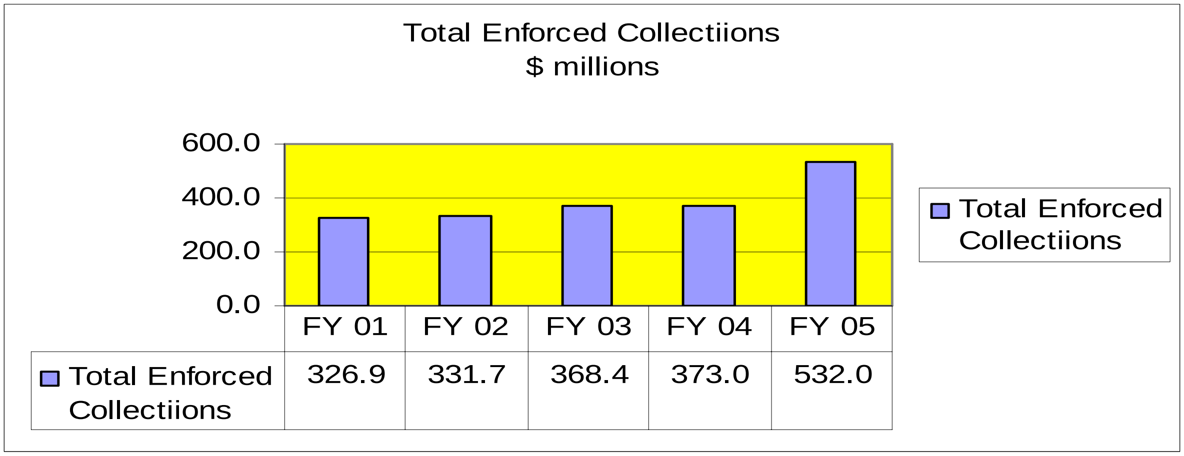


Fig. 7.2.2

For FY 05, our Nexus/Discovery unit has registered 285 non-filers and collected $8,450,735.79.

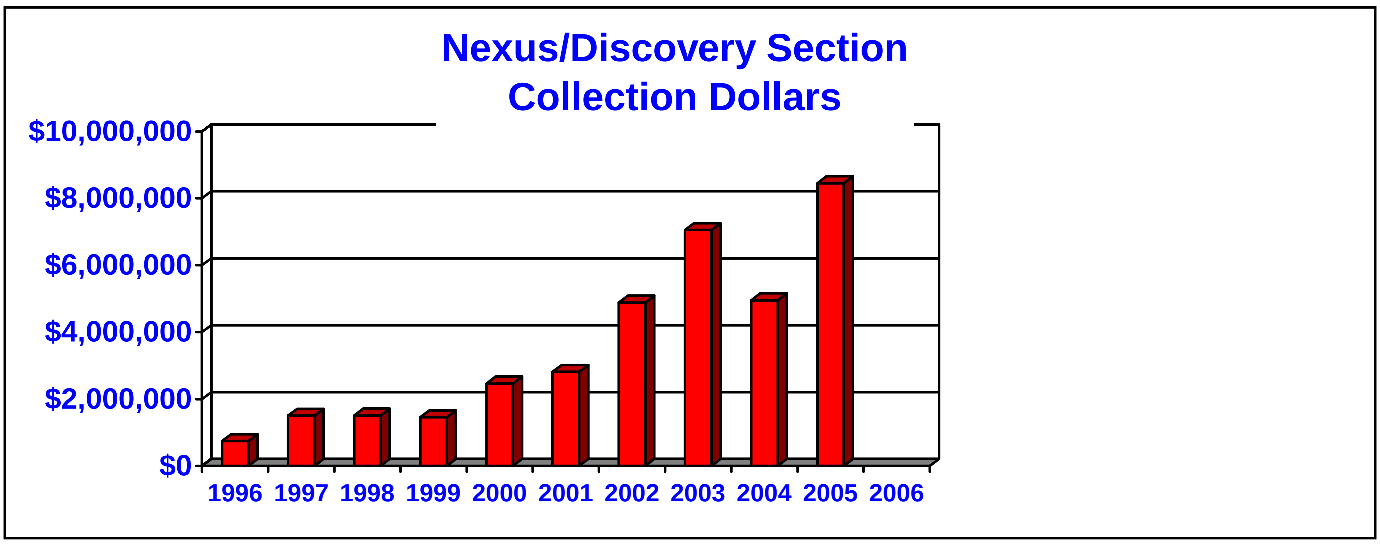


Fig. 7.2.3

As part of our ongoing strategy to grow our electronic capabilities for our customers, we show our ranking among the other top states for electronic filing of individual income tax. These methods help us accomplish our mission in a more efficient manner; therefore the numbers of non-paper tax returns filed is the first of these indicators. The latest available information from the Federation of Tax Administrators placed South Carolina tied for eight with Ohio, Idaho and Montana. South Carolina's percentage of 52% trailed Iowa (64%), Minnesota (63%), Wisconsin (59%), Michigan (58%), California (57%), Nebraska (54%) and Arkansas (53%). Of note is that electronic filing is not required in South Carolina, but is required in some other states for certain taxpayers. With that in mind, maintaining our position as leaders in this area is a substantial accomplishment. Promoting electronic filing has been a significant cost and time saver for the Department, the State, and the taxpayer. Figure 7.2.4 depicts our ranking with the other highest ranking states.

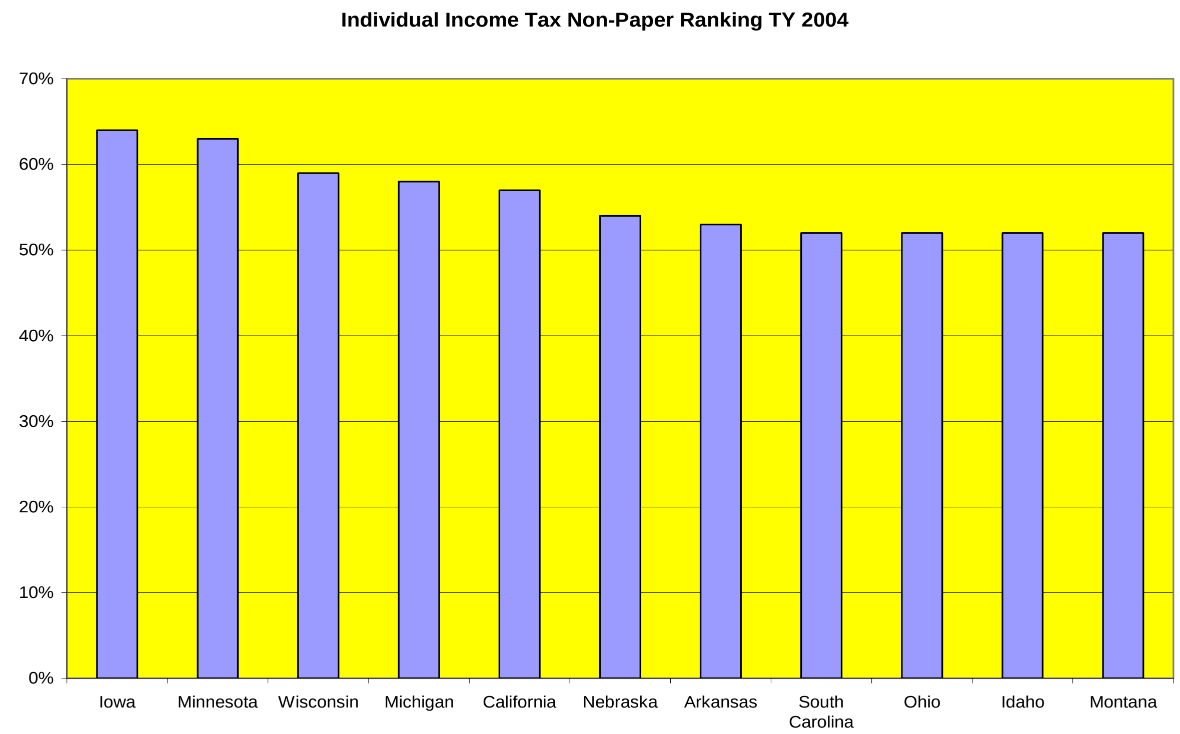


Fig. 7.2.4

The percentage of electronically filed returns, shown in Figure 7.2.5, increased 1% over last year.

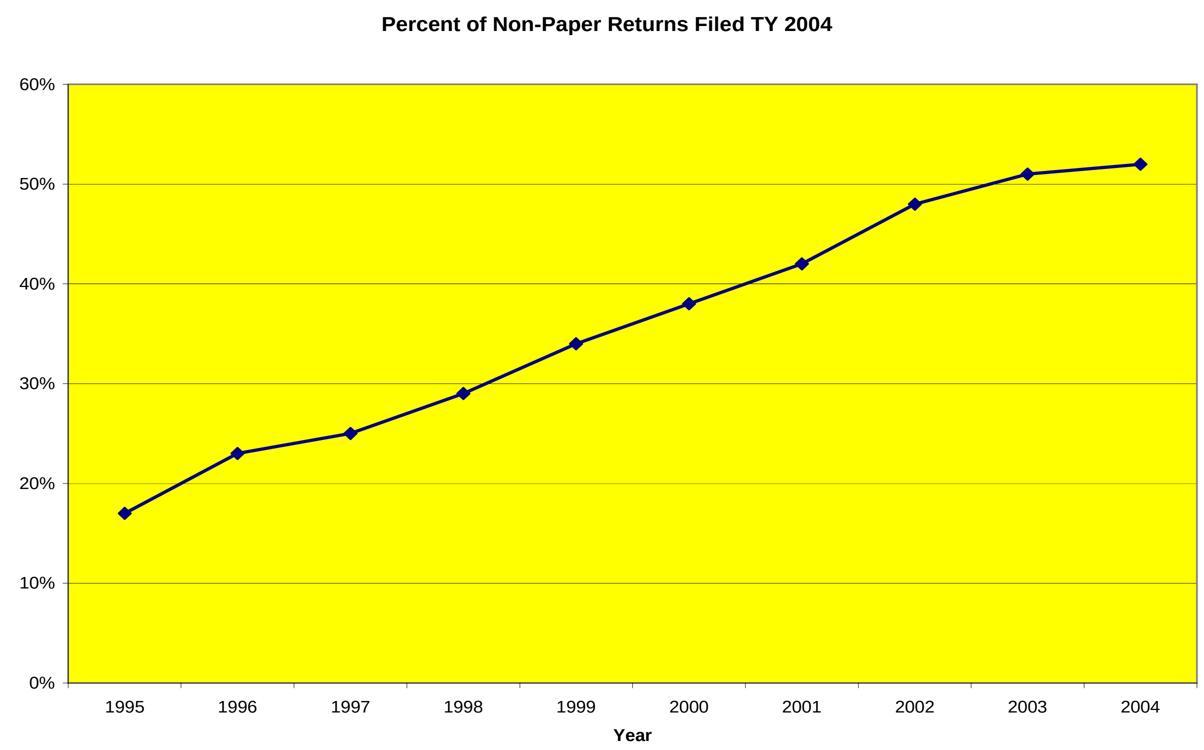


Fig. 7.2.5

Figure 7.2.6 indicates the growth in the various technological methods taxpayers used in filing their individual income tax returns this tax year. Taxpayers using these "alternative" methods not only allow the DOR to process returns more efficiently and virtually error free, but to generate refunds much quicker, which is a customer satisfier.

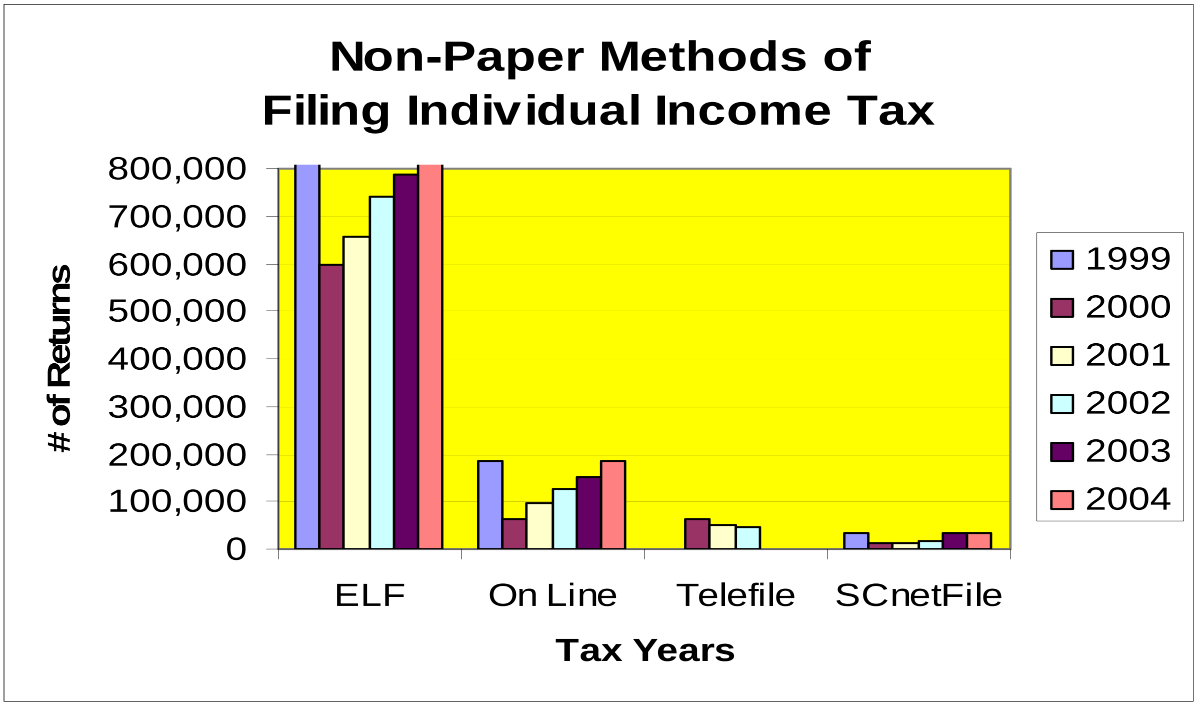


Fig. 7.2.6

Part of the Department of Revenue's strategy is to become the payment processor for the state. Figures 7.2.7 – 7.2.15 show the number of transactions we have completed in the four top tax types.

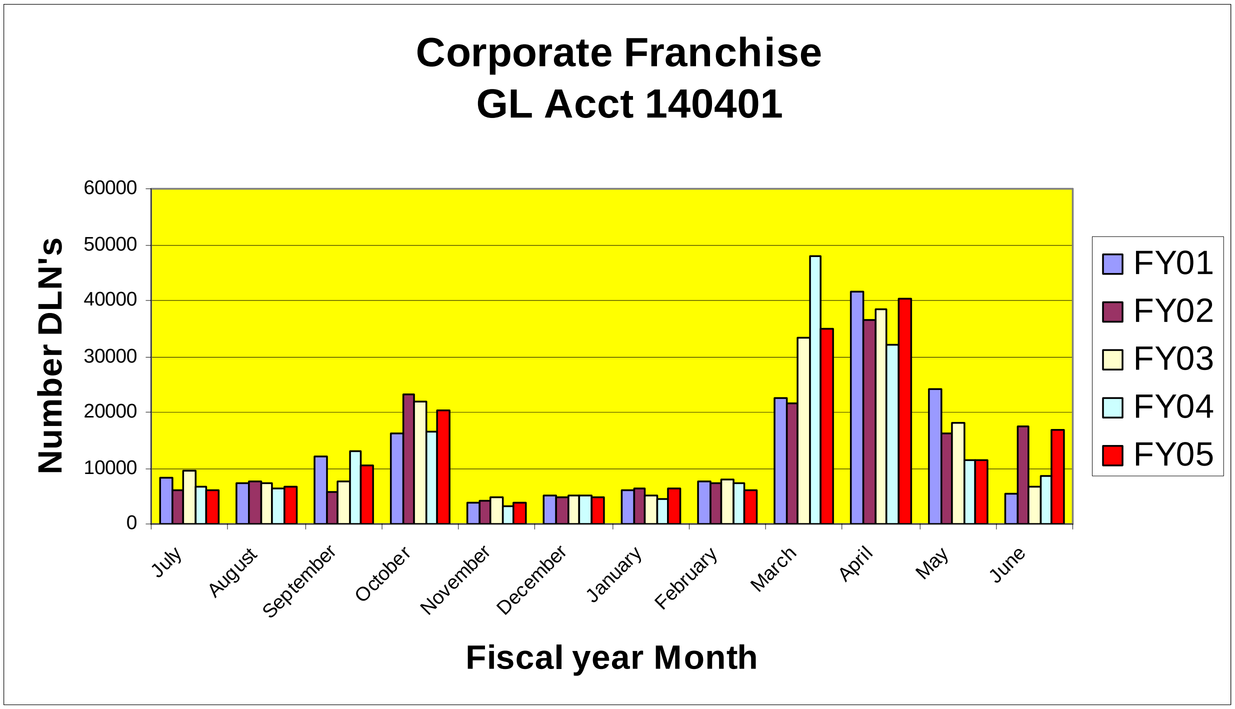


Fig. 7.2.7

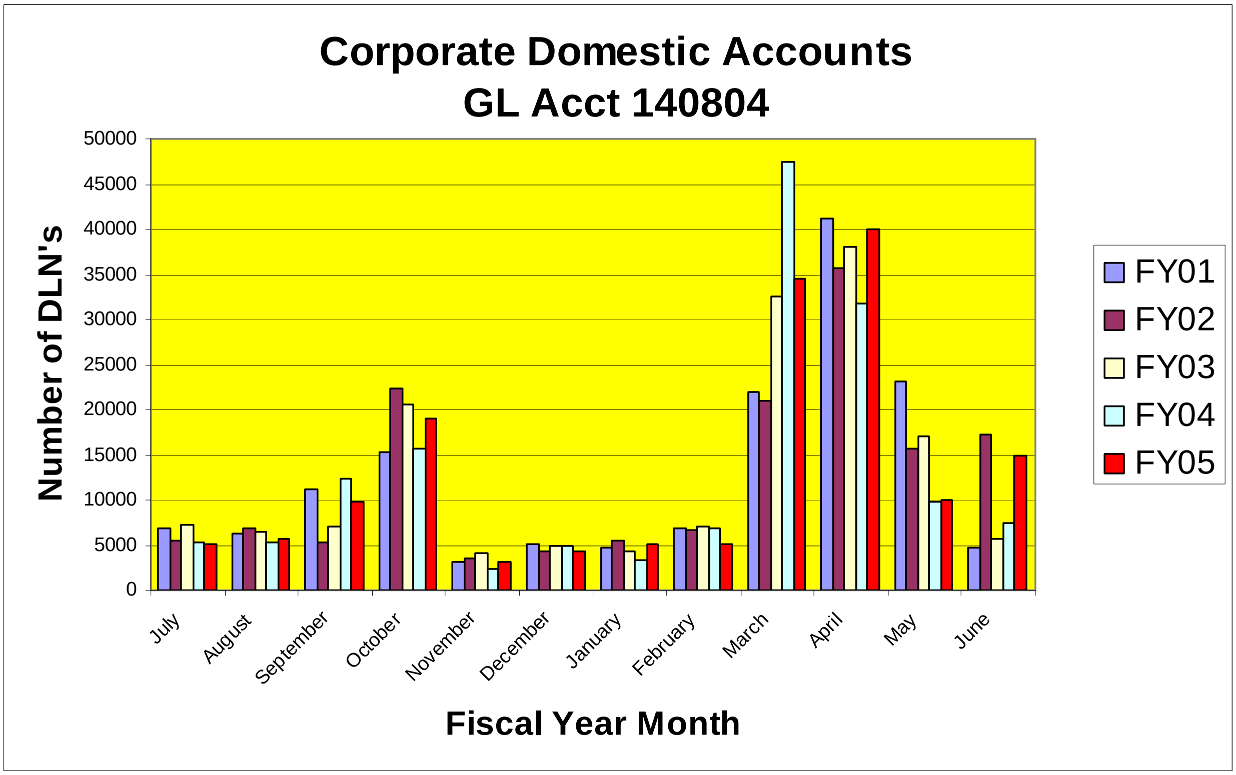


Fig. 7.2.8

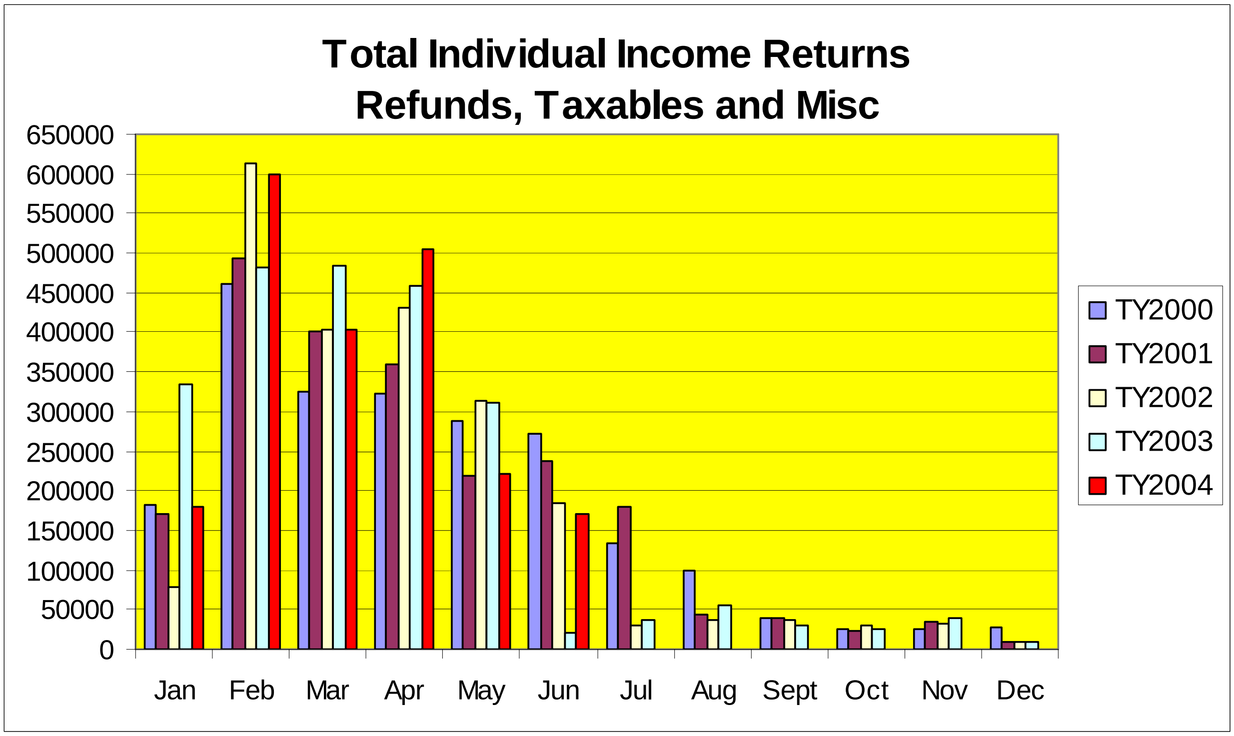


Fig. 7.2.9

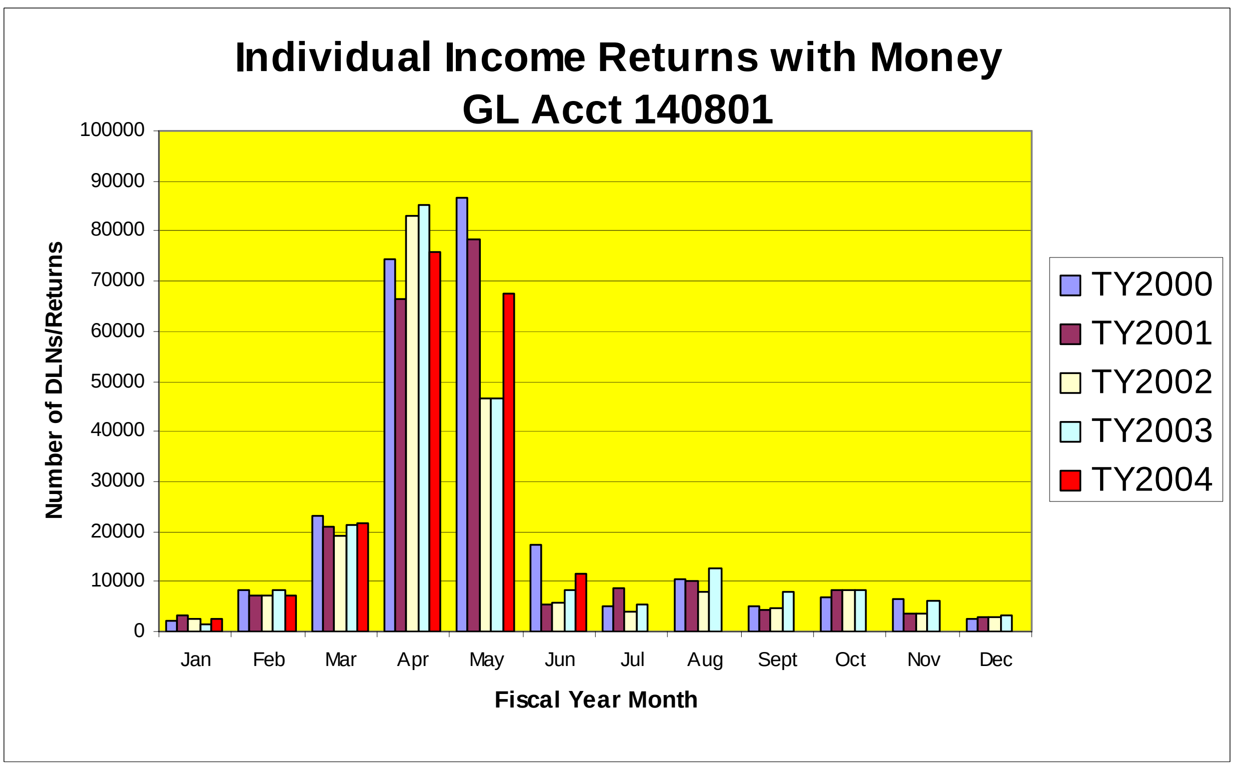


Fig. 7.2.10

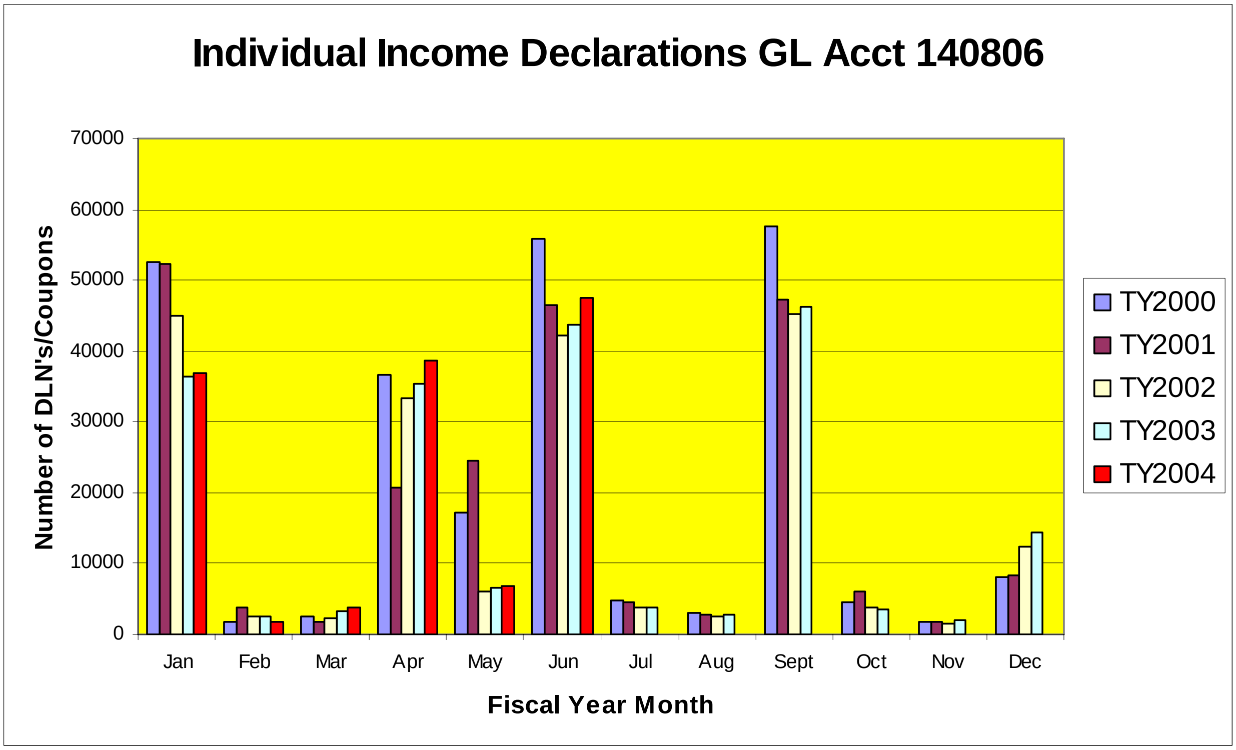


Fig. 7.2.11

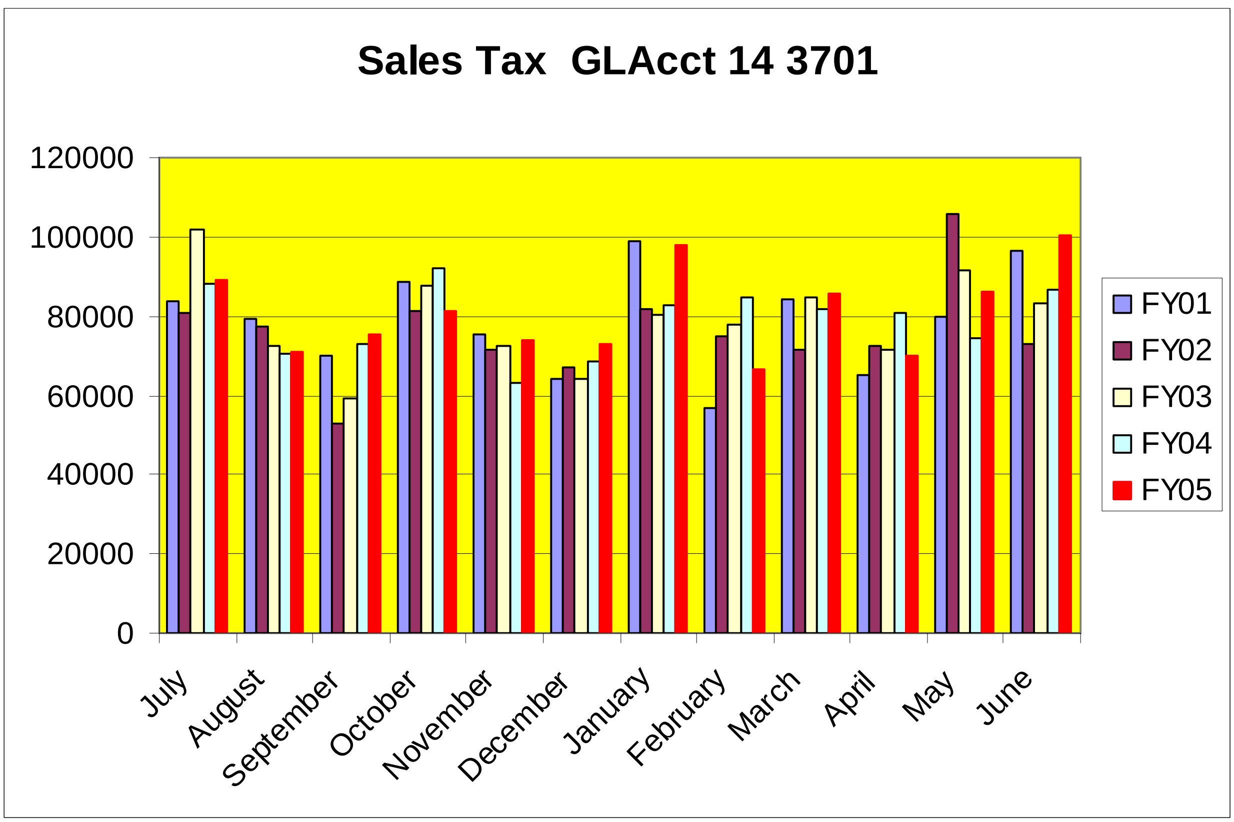
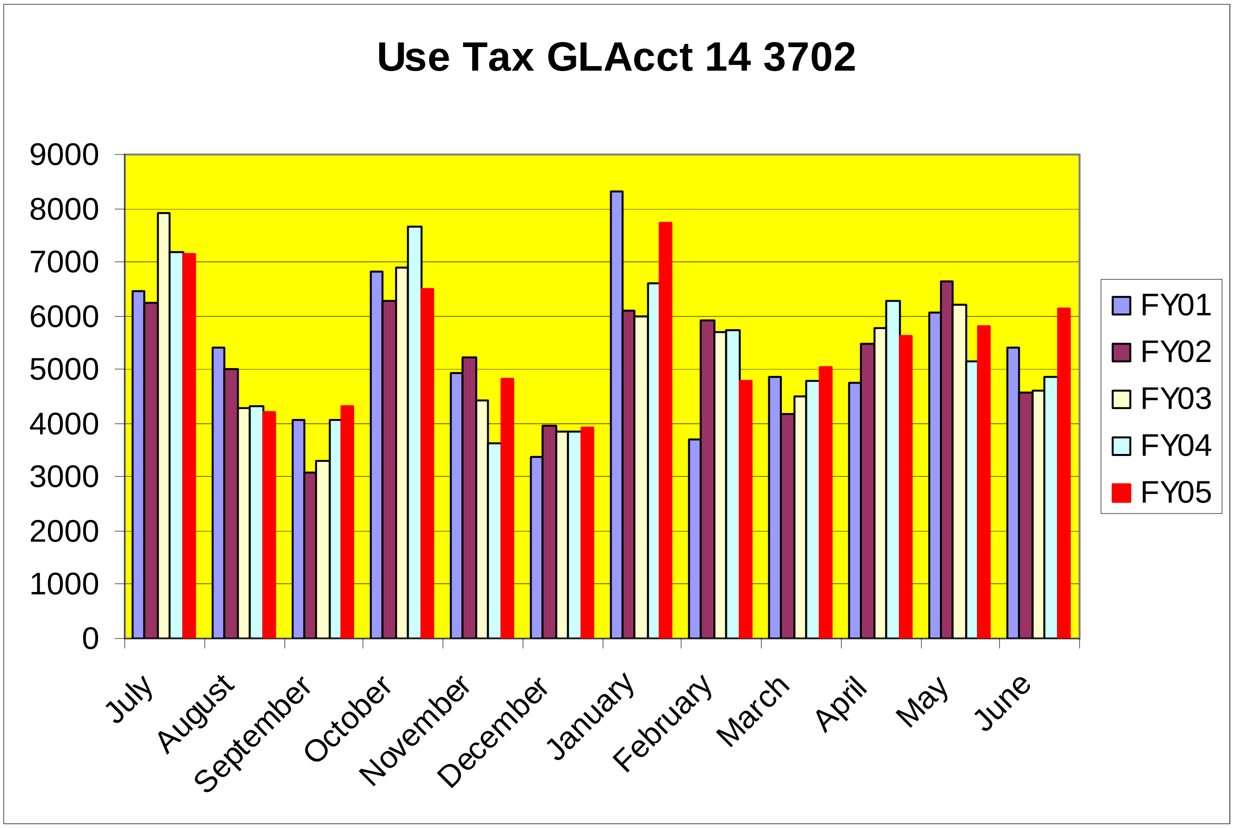


Fig. 7.2.12



7.2.13

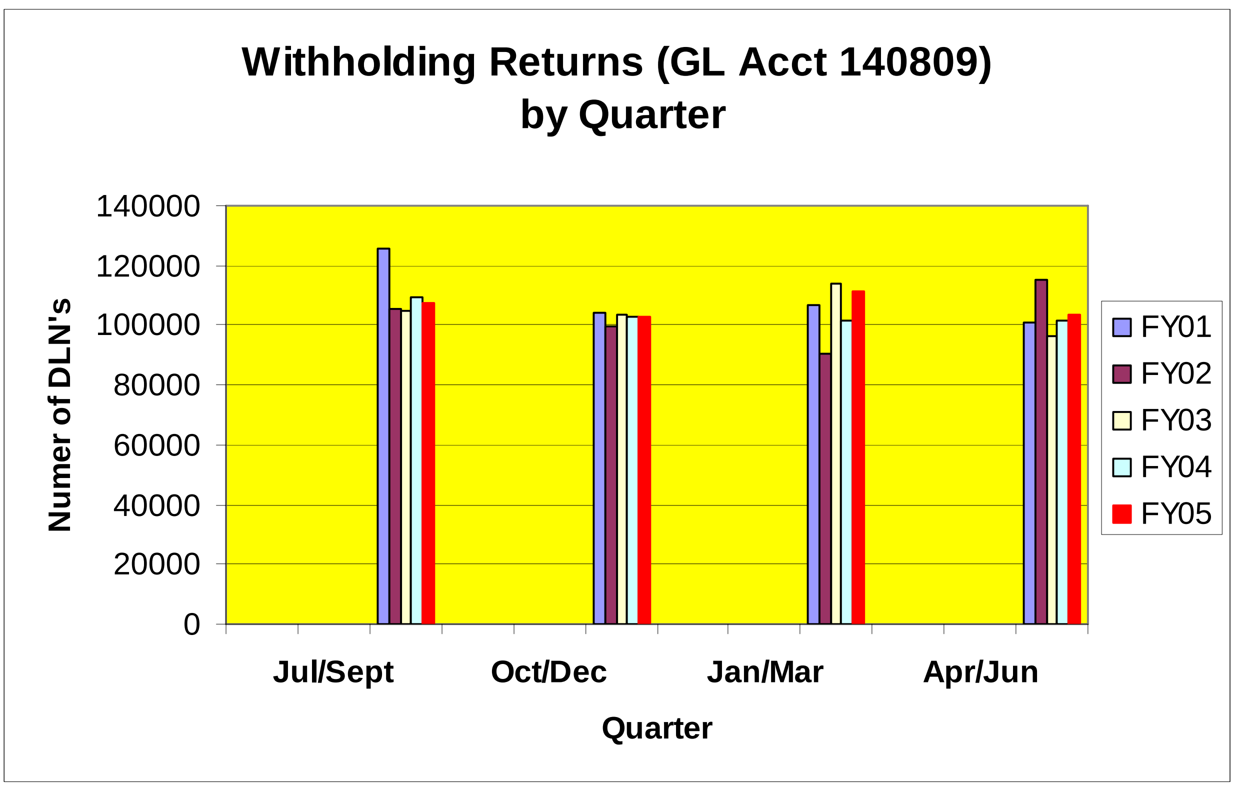


Fig. 7.2.14

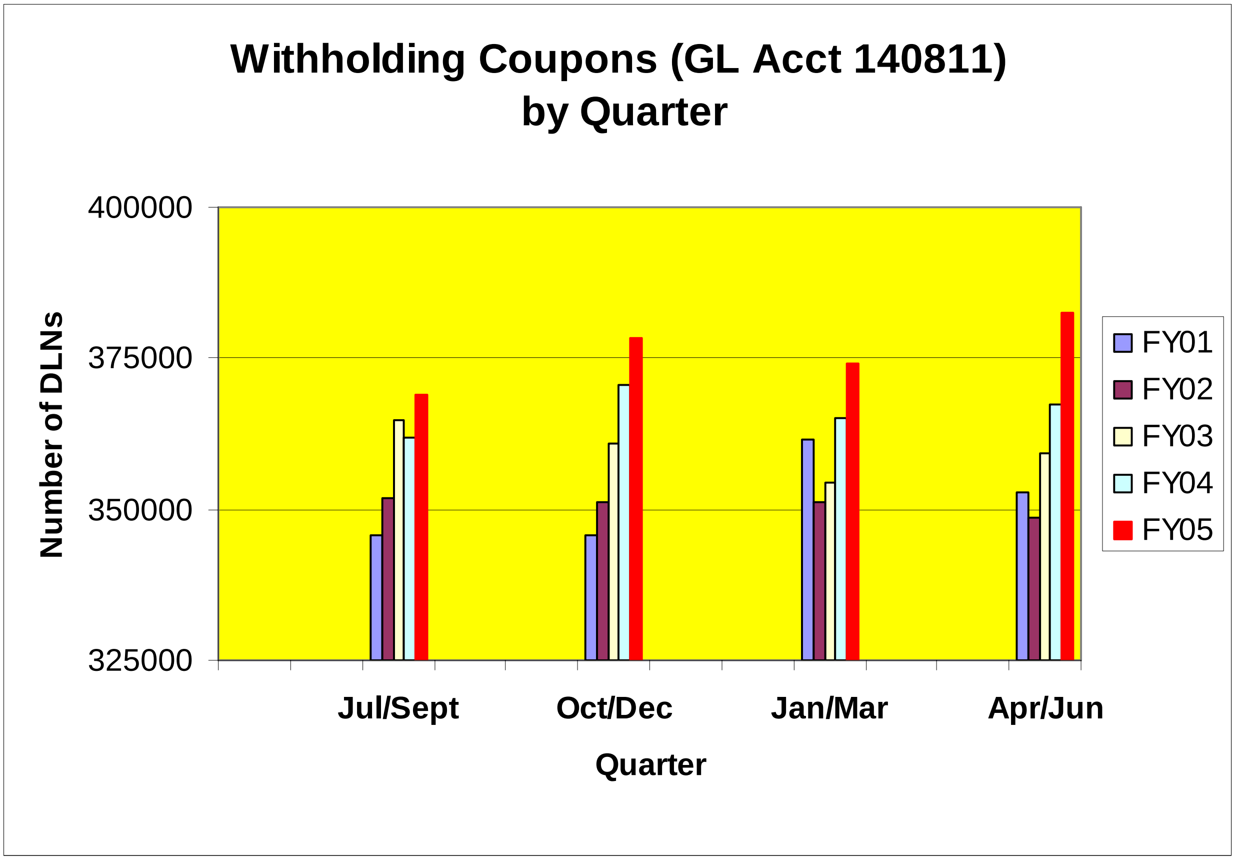


Fig. 7.2.15

7.3 Financial Performance Indicators: Figure 7.3.1 shows our cost for collecting $1.00 of tax was $.007. This measure shows the effectiveness of our collection approaches.

Cost of Collections

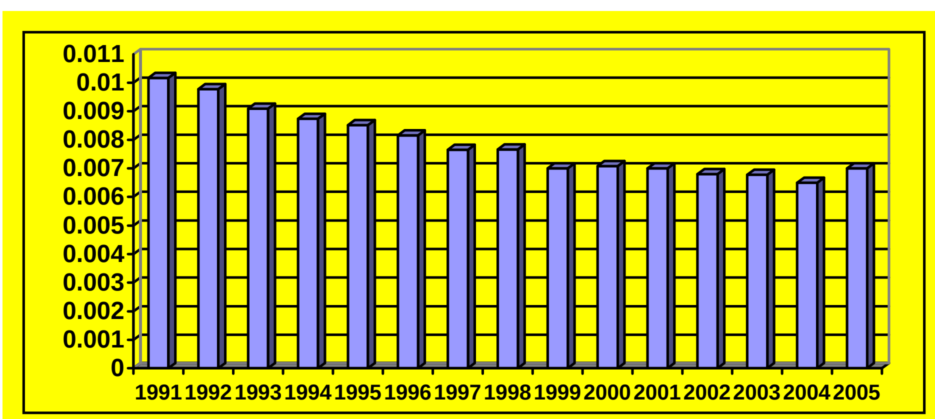


Fig. 7.3.1

The amount of dollars collected per filled full time employee, Figure 7.3.2, indicates our effectiveness and efficiency in the collection process of $11.97 M per employee.

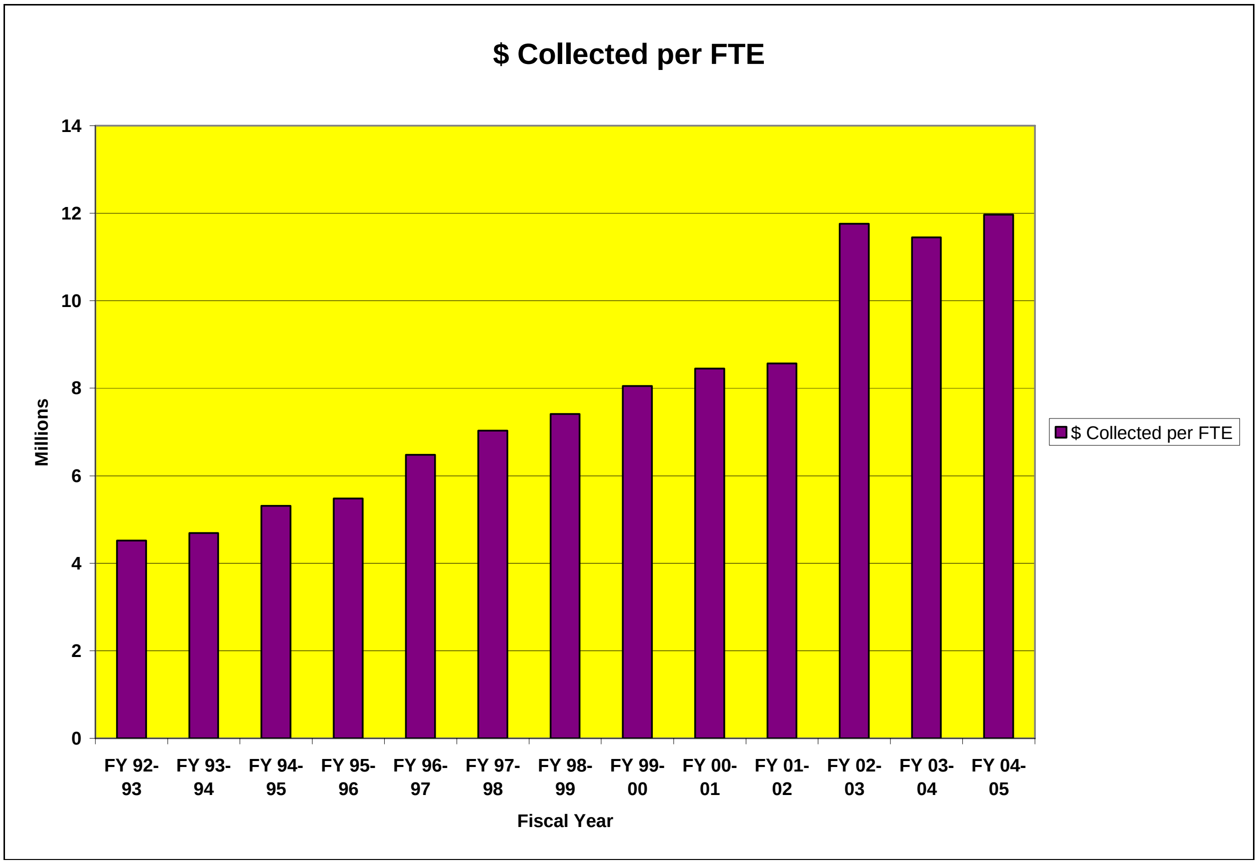


Fig. 7.3.2

The amount of interest lost monthly shows how effective and efficient we are with processing of checks and returns and getting state funds deposited. Figure 7.3.3 is a six-year comparison of the data. This information fluctuates with the changing interest rate, and the high points correspond to our peak processing times of tax returns.

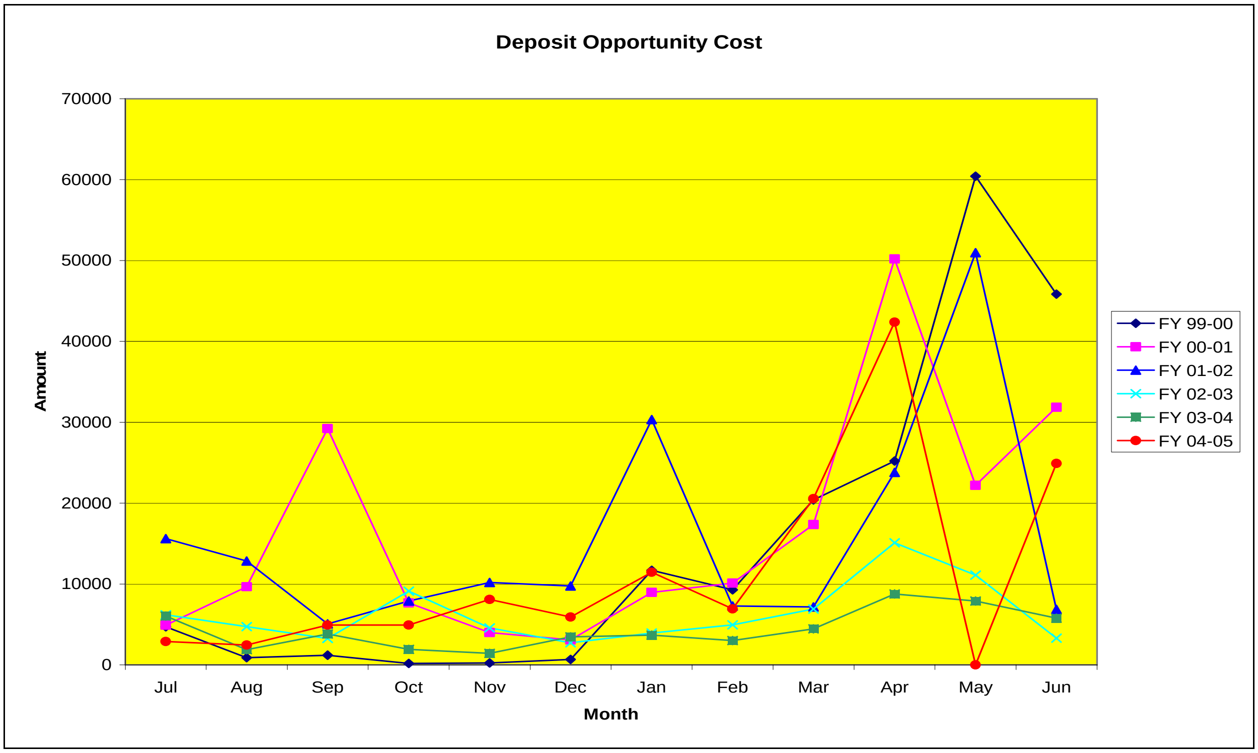


Fig. 7.3.3

Figures 7.3.4 and 7.3.5 indicate the growth in the dollars deposited electronically and in the various technological methods taxpayers used in paying their obligations this past year. Taxpayers using these "alternative" methods not only allow the DOR to both "get the money in the bank" quicker but, process transactions quicker and virtually error free.

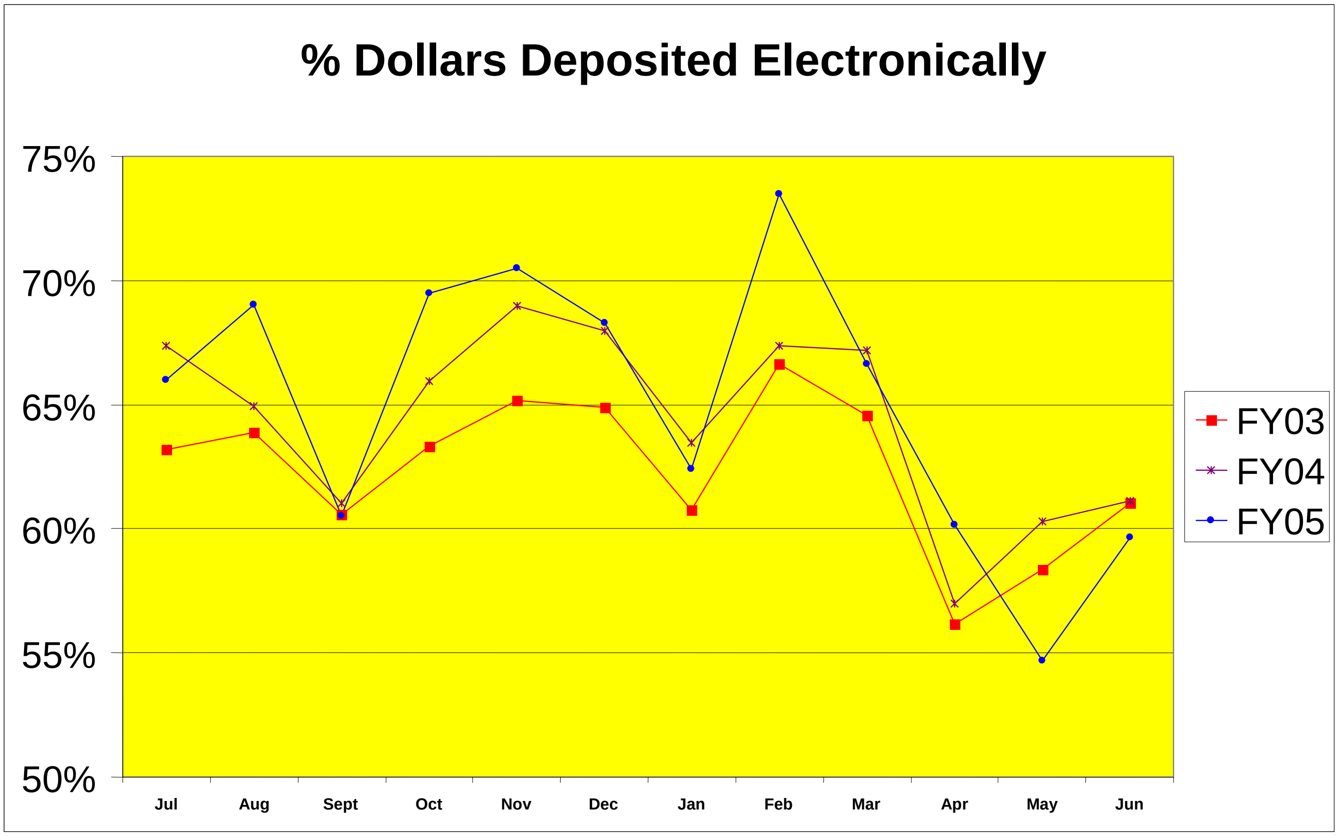


Fig. 7.3.4

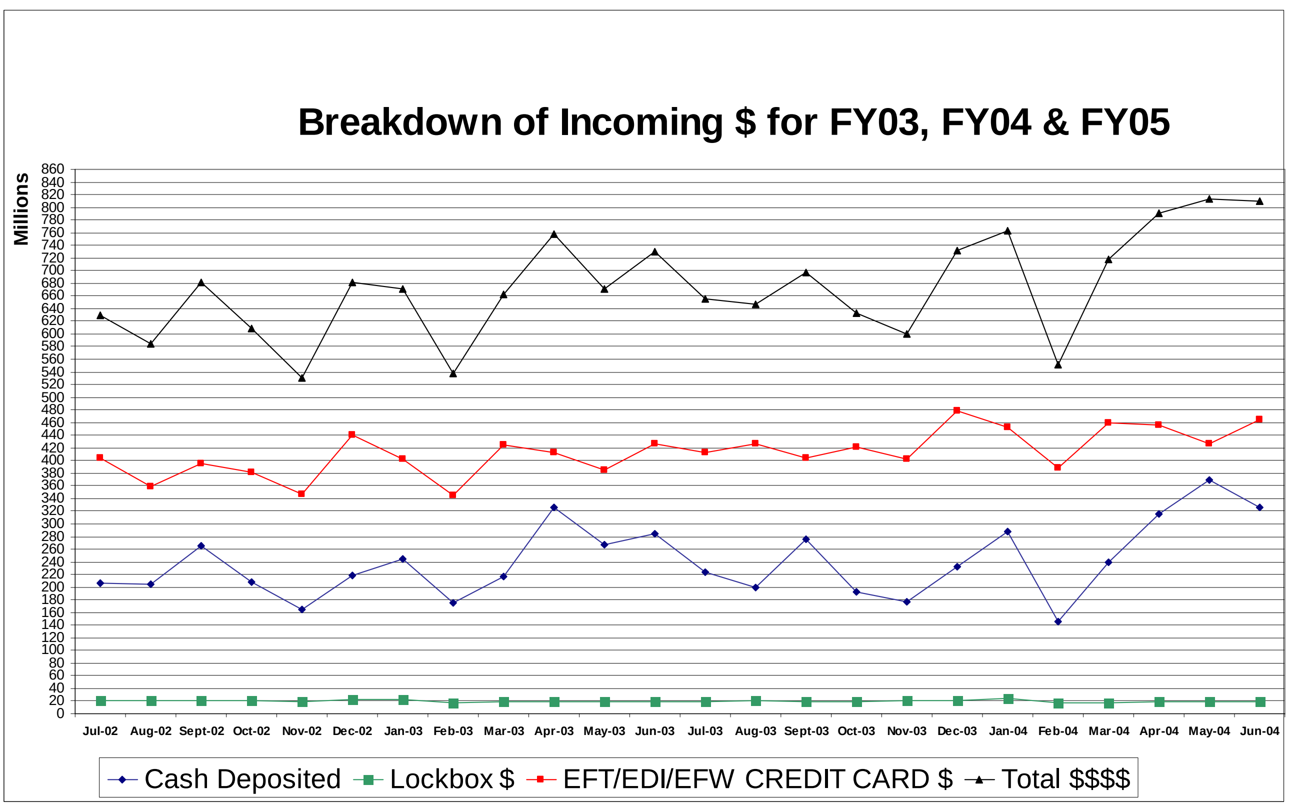


Fig. 7.3.5

7.4 Human Resource Results The measures we review for employee satisfaction are the number of employees voluntarily resigning (Figure 7.4.1) and sick leave usage. (Figure 7.4.2).

The number of resignations has remained stable with the exception of the several months that spiked due to RIF and release of probationary employees during that time frame.

We measure the average sick leave usage, as that can be an early indicator of potential employee dissatisfaction. Special retirement and/or separation incentives impacted the average use as these separating employees often have a great deal of sick leave that is used in calculations for retirement credit. This results in those hours being counted as "used." Also, employees may donate leave to the agency leave pool. Donated hours are also accounted for as being "used." These factors account for the spikes in December and June.

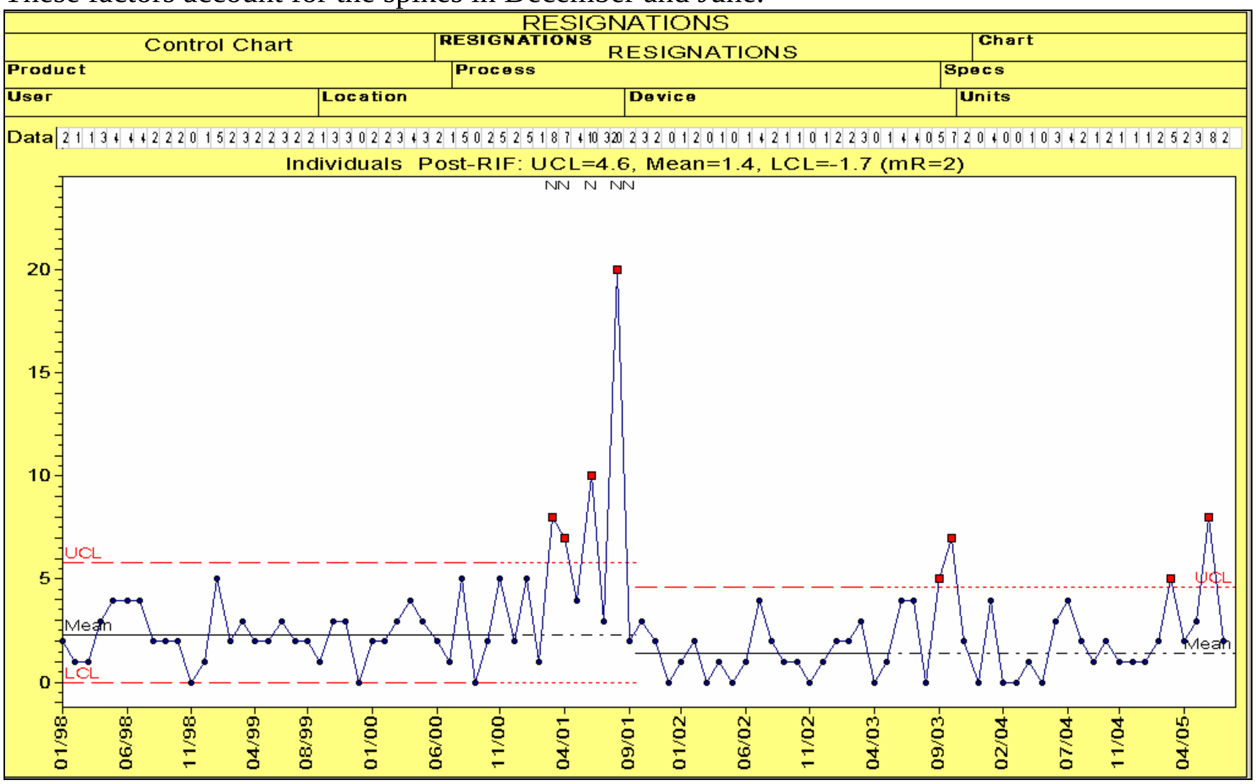


Fig. 7.4.1

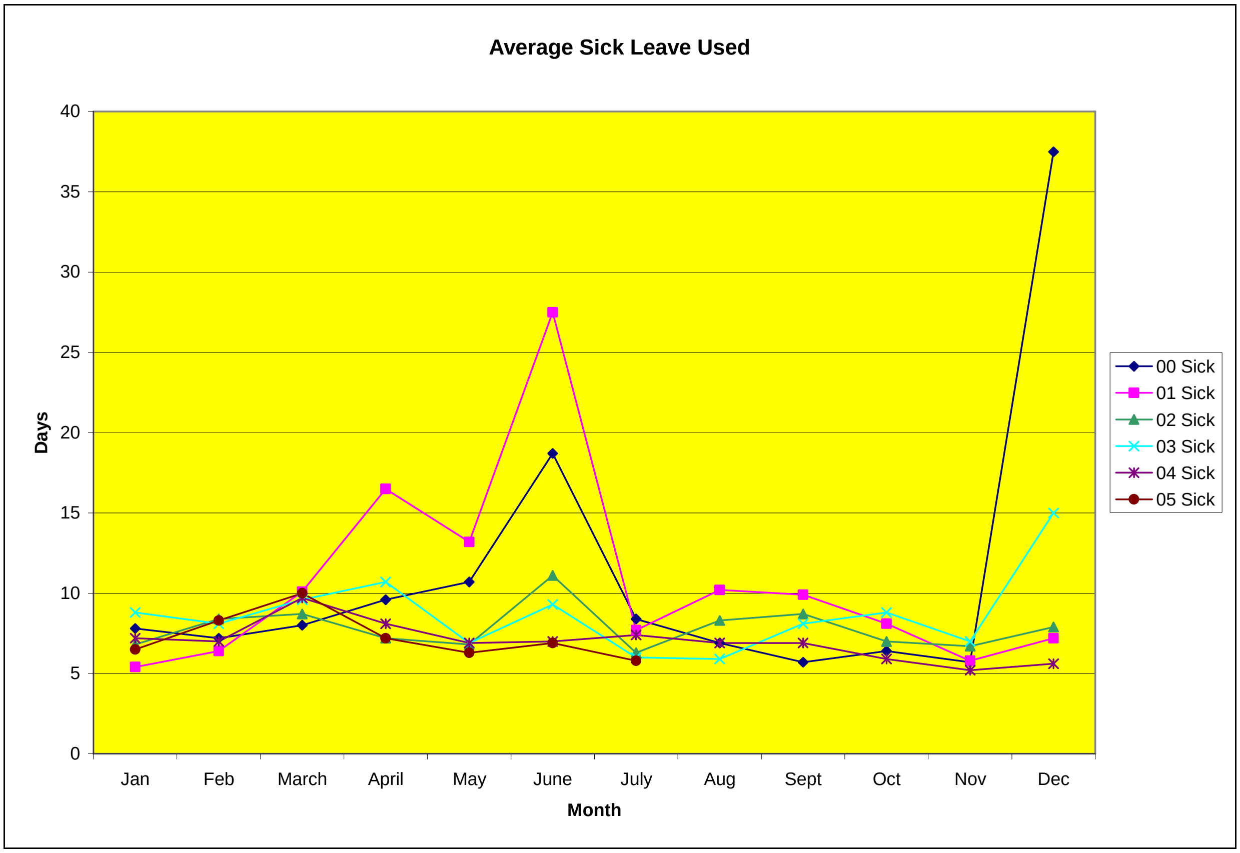


Fig 7.4.2

7.5 Regulatory/Legal Compliance and Citizenship The agency has had no regulatory violations or significant findings by those external entities that are in positions to do so in the past fiscal year. Some of these entities include: State Auditor; Legislative Audit Council; Internal Revenue Service; Occupational Safety and Health Organization; State Materials Management; the Budget and Control Board, and State Fire Marshal.

Our Equal Employment Opportunity (Figure 7.5.1) statistics show that the agency has a 94.3% success rate as of August, 2005 in attaining our affirmative action goal. The agency was ranked first among all state agencies with 501 - 1000 employees in the report submitted to the General Assembly in February, 2005.

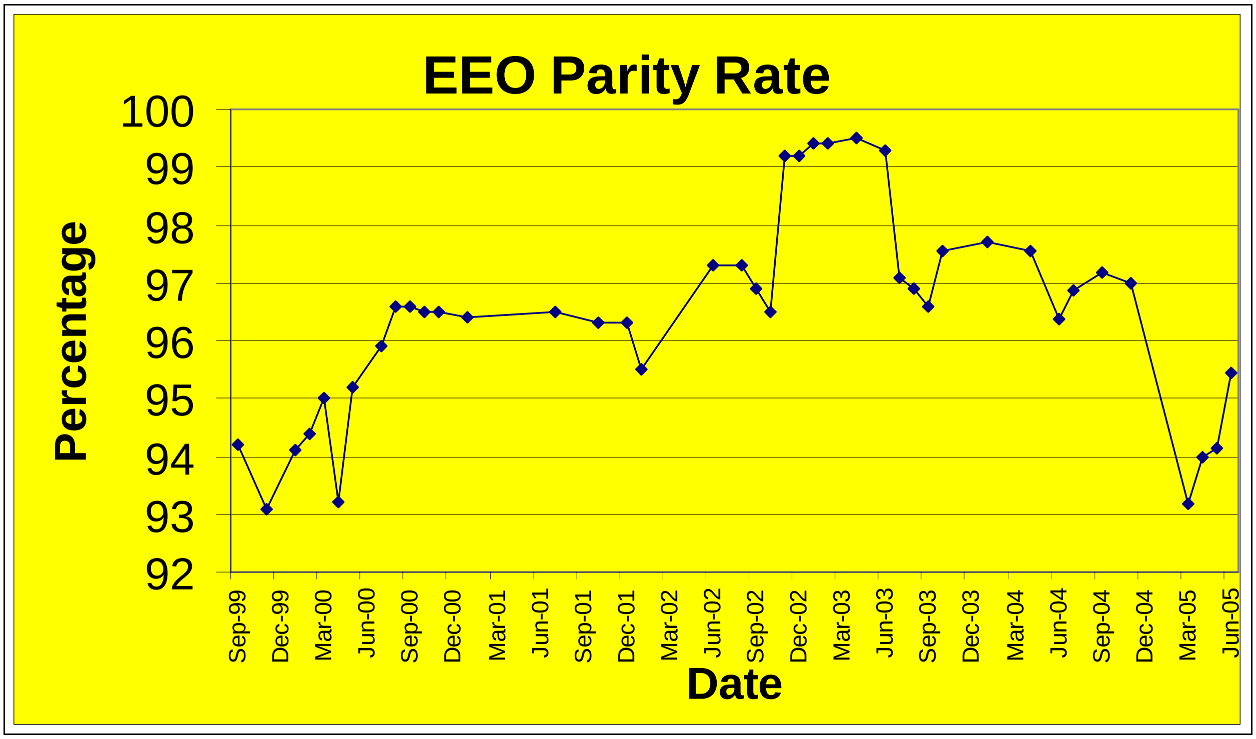


Fig. 7.5.1

As a measure of our good citizenship, we look at our purchases through minority businesses (Figure 7.5.2). This year we have consistently outperformed the goal of $7,778 per quarter of purchases with minority businesses.

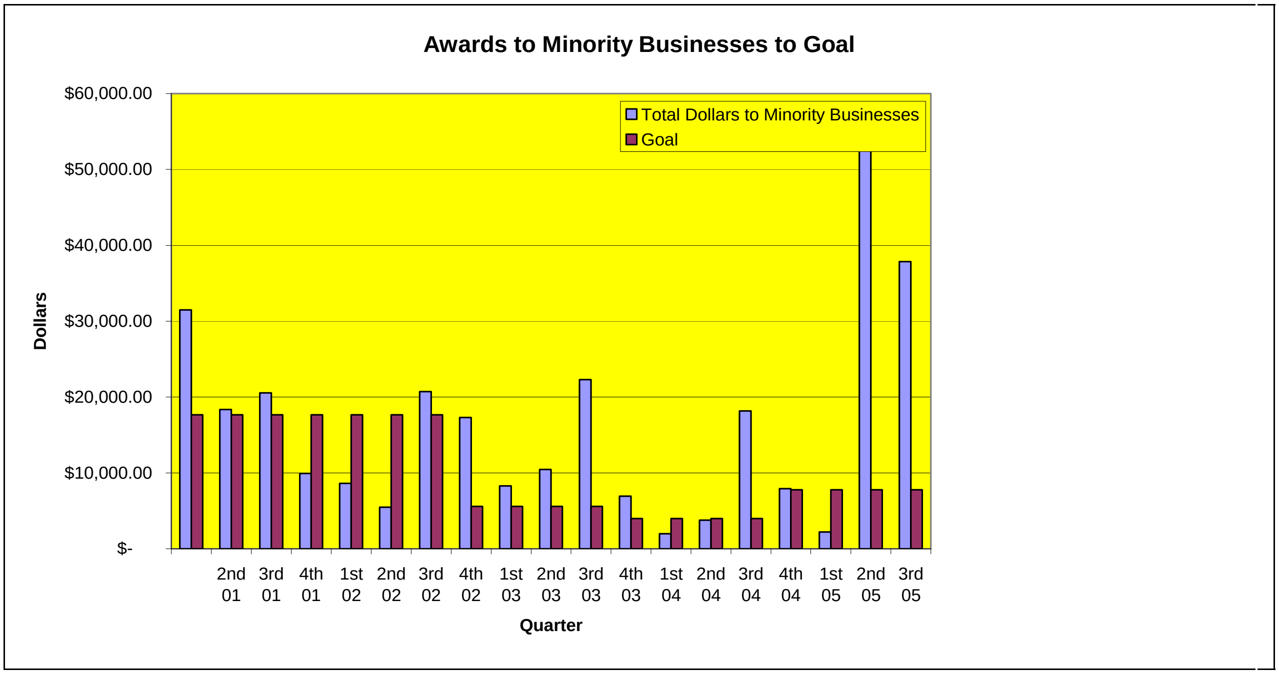


Fig. 7.5.2

We continue to support the community through our GEAR (Government Enterprise Accounts Receivable) and SCBOS programs. Currently we have 46 entities participating in GEAR. We are planning our GEAR presentation for the Association of Counties on August 22, 2005. Collections for GEAR for this fiscal year total $2,442,678.80.
Statistics for our SCBOS program are shown in the following charts. They include the Secretary of State Activities for registering and reserving a entity name (Figure 7.5.3), licenses, permits, and registrations (LPR's) by agency (Figure 7.5.4), entity types approved (Figure 7.5.5), payments, approved (LPR's) (Figure 7.5.6).

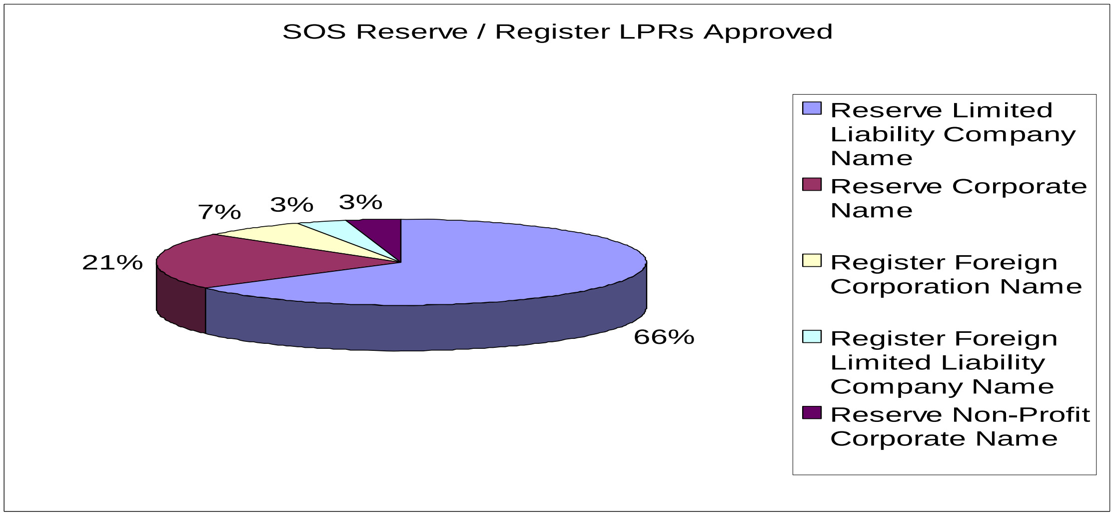


Fig. 7.5.3

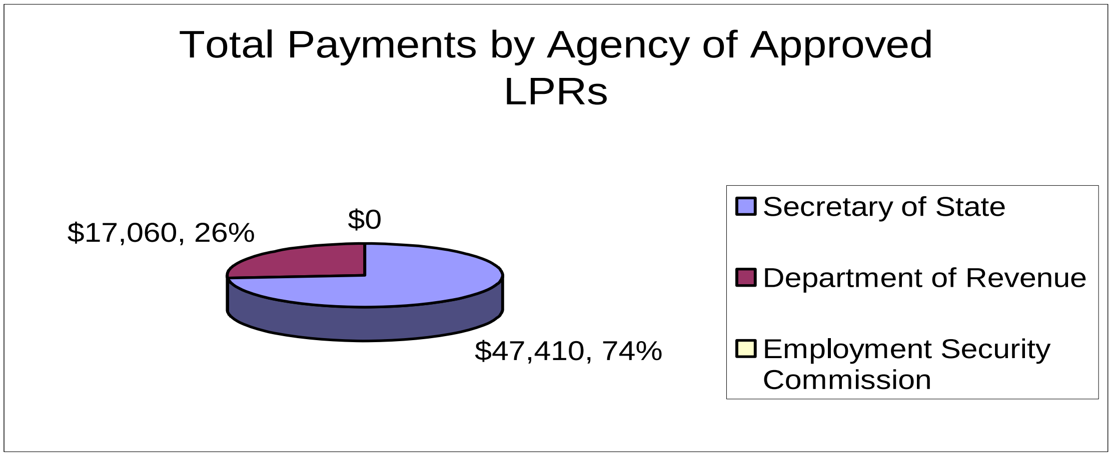


Fig. 7.5.4

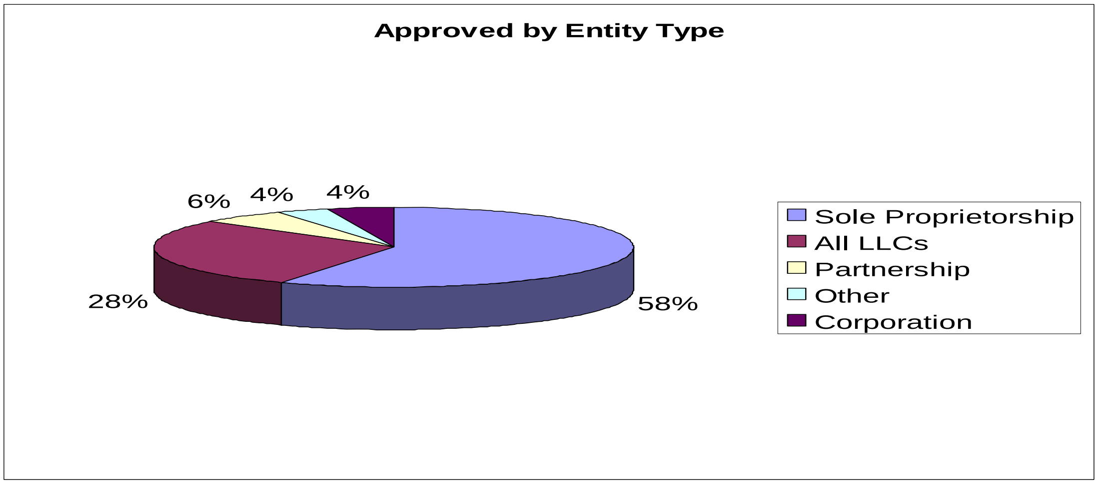


Fig. 7.5.5

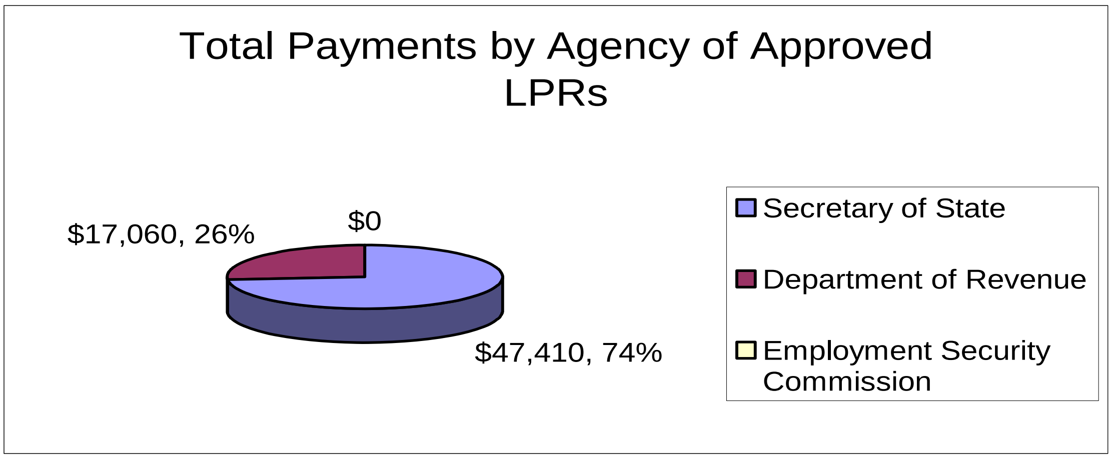


Fig. 7.5.6

The agency provides a service for stakeholders in the collection of debts for other governmental, health care and educational institutions through our debt setoff program. Under this program, these entities provide us with an electronic listing of their debtors and we match refunds against those lists to capture their refund and send them the amount seized. Figures 7.5.7 and 7.5.8 show the steady increase in the amount collected and the number of claimants participating in this program.

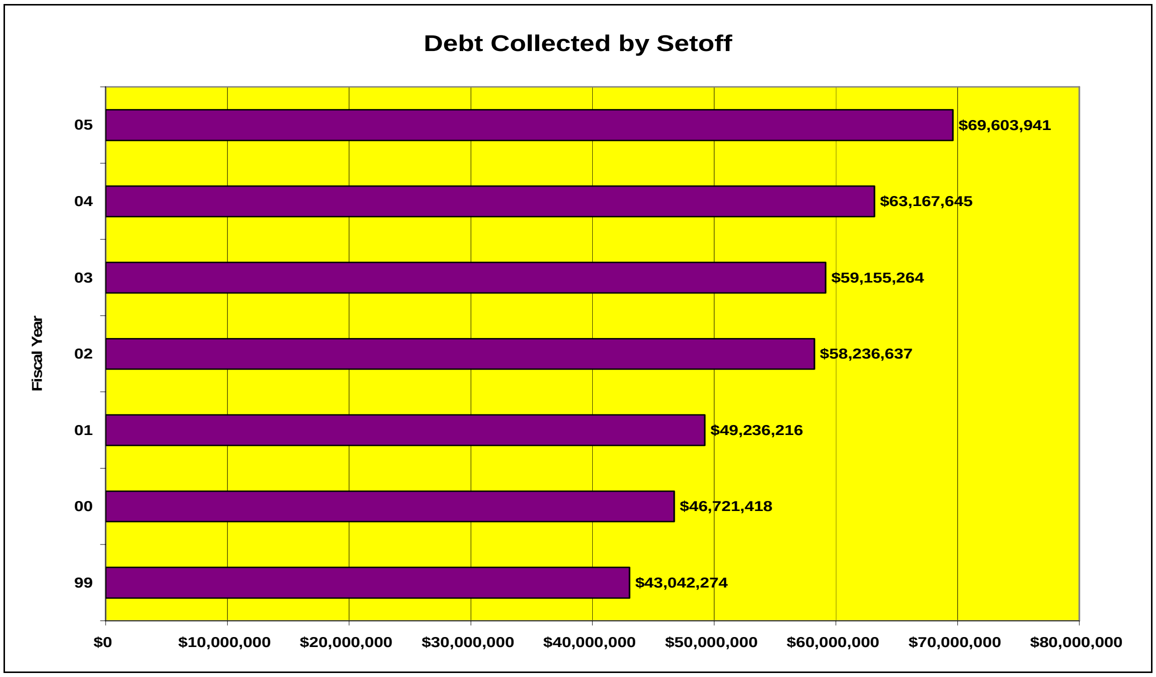


Fig. 7.5.7

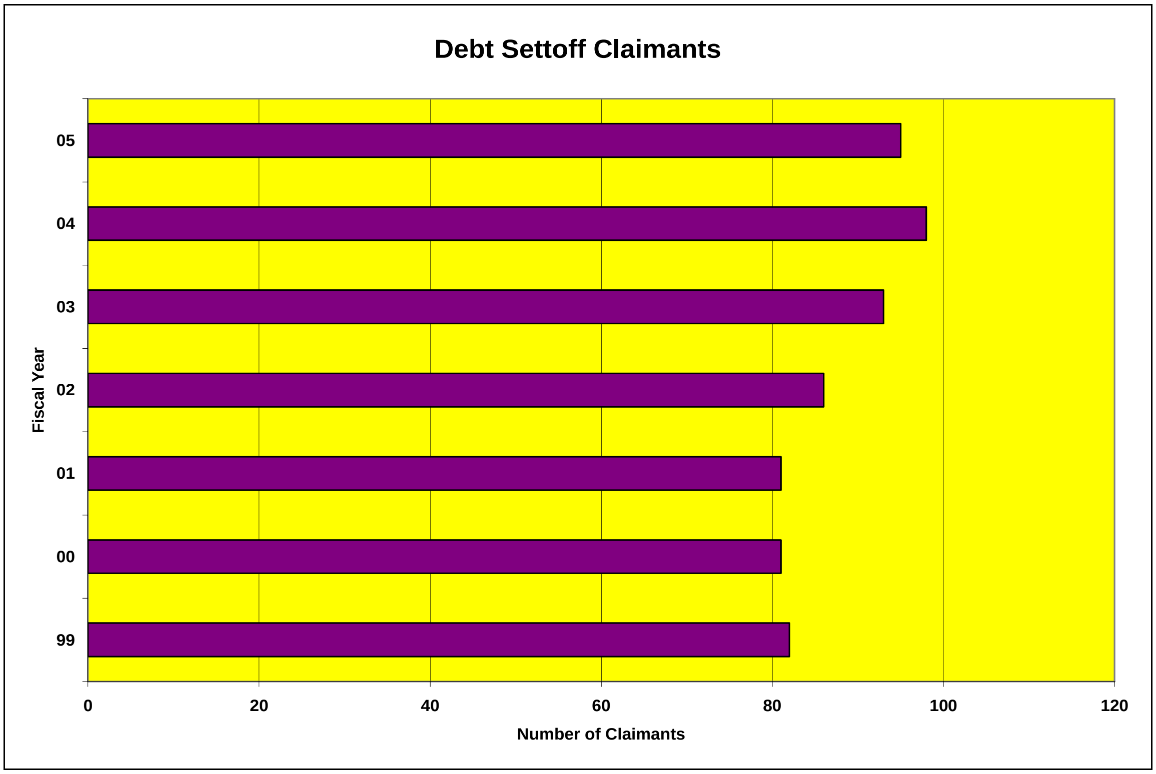


Fig. 7.5.8