

**South Carolina
Department of Revenue**

**Annual Accountability
Report**

Fiscal Year 2010-2011

**Nikki R. Haley, Governor
James F. Etter, Director**

Accountability Report Transmittal Form

Agency Name - South Carolina Department of Revenue

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I. Executive Summary

I.1 Mission, Vision and Values:

The mission of the Department of Revenue (DOR/Department/Agency) 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 vision as stated in the Agency's Strategic Plan: We, the employees of the South Carolina Department of Revenue, will be the leaders and drivers of innovation and excellence in state government. The Department of Revenue will be the standard for efficiency, effectiveness and service in tax and revenue administration and will continuously improve governmental services.

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 collects approximately 92% of the state's general fund. Total annual net collections by the Department amount to \$7.8 billion through all of our collection and enforcement activities from the 32 taxes we administer and other collection activities for which we are responsible (Figure 7.1.1, p. 41).

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 DOR in formulating budget estimates for purposes of developing guidelines for the General Assembly and the Governor to establish the state budget.

The Department fulfills its legislatively mandated (§11-11-10) obligation to be represented at all meetings of legislative committees related to budget activities. The Director is 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 is instrumental in bringing new businesses and encouraging existing businesses to expand within South Carolina. Along with the South Carolina Department of Commerce (DOC), the DOR is closely involved in enhancing economic development in this State. The Director is a member of the Coordinating Council for Economic Development and acting Chairman of the Enterprise Program of the Coordinating Council for Economic Development.

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.

I.2. Major Achievements from Past Year:

All Department business plans tie directly to the Strategic Plan. Senior leadership continues to lead the Agency in developing a strong and challenging annual business plan. This plan enables us to maintain focus on our major long-term goals and objectives listed below:

Find Non-filers:

Use Tax Non-filers – The DOR continues to identify possible non-filers through the U.S. Customs project, collecting \$202,503 on 374 assessments this fiscal year. Collections on non-filers identified through the use of U.S. Coast Guard information have totaled \$70,181 on 167 assessments. The DOR continues to obtain information from transportation companies on furniture deliveries from North Carolina into this State which resulted in \$66,852 in collections on 223 assessments during FY11. Also, through warranty information from manufacturers of All Terrain Vehicles (ATVs) and similar products, the DOR issued 554 assessments and collected \$146,570 for use tax on these items. Through the methods listed above and others, the DOR has collected \$488,134 on 1,321 use tax assessments in FY11.

Income Non-filers – The DOR continues to use the Data Warehouse pre-audit program to find individual income tax non-filers. Using this method, the DOR has issued 2,909 individual income tax non-filer notices and assessed \$10,427,984. Total collections this fiscal year on income non-filers were \$9,040,620.

Nexus/Discovery – Nexus/Discovery focuses on the large multi-state and multi-national corporations doing business in South Carolina, but who are not reporting in South Carolina. For FY11, the Nexus/ Discovery unit registered 289 non-filers and collected \$9,127,394. Projects this year included DOR internal database crosschecks and a Department of Employment and Workforce (DEW) crosscheck, regional and national exchanges, internet research, accommodations and auditor referrals. We are focusing on credit card companies, the medical industry, manufacturers and franchisors.

Maintain a Data Warehouse:

The purpose of this project is to use data warehouse technology to identify uncollected revenues which consist of taxes due from non-filers, under-reporters and failure-to-pay taxpayers. Data loaded in FY11 included W-2 information, DEW data, and income tax returns, among others. In addition to the compliance component, the data warehouse is used to pull data into our business intelligence program, Business Objects.

Maximize Voluntary Compliance through Fair Share Activities:

Voluntary tax compliance is increased when taxpayers have clear guidance and an understanding of how tax law is applied to various situations. Where alternative resolution is not possible, the Department continues to resolve disputed issues through litigation on many tax issues where there is general disagreement in the interpretation and application of tax statutes. During this last fiscal year, issues related to sales tax, job tax credits and corporate licenses fees were identified

and litigated at various levels of state court. In addition, the continued application of an important decision issued by the South Carolina Supreme Court in FY10 (Media General) is helping to produce a more fair measure of tax for out-of-state corporations doing business in South Carolina.

Travelscape, LLV v. SC Department of Revenue, 391 S.C. 89, 705 S.E.2d 28 (2011). The South Carolina Supreme Court held that out-of-state, online travel companies who sell (rent) South Carolina hotel rooms on internet websites are liable for sales tax based upon their gross proceeds derived from the furnishing of accommodations. Travelscape did business in South Carolina as Expedia.com and had contracts with over 300 South Carolina hotels allowing the taxpayer to rent rooms on the Expedia website. The taxpayer charged its internet customers a marked-up rate for a room that included a discounted room rate negotiated with the hotel and a service fee called a “facilitation fee” for its services for arranging the hotel room. After the customer’s stay in the hotel, the taxpayer would pay sales taxes to the hotel measured by the discounted room rate instead of the marked-up rate it received from the customer. The proceeds received as a facilitation fee were not subject any tax. The Department assessed sales taxes based on the argument that the taxpayer owed taxes on the entire proceeds of sale. The Administrative Law Court (ALC) ruled in favor of the Department and the taxpayer appealed. The SC Supreme Court upheld the ALC ruling. This case stands for the proposition that nexus for commerce clause purposes may be established in SC by virtue of the presence of a third party or agent working on behalf of the taxpayer.

Alltel Communications v. SC Department of Revenue. This case presents the issue of whether a mobile telephone company is a telephone company for purposes of corporate license fees under SC Code Ann. 12-20-50 or 12-20-100 and will thus bring some level of certainty to this area. The ALC ruled in the taxpayer’s favor saying the mobile telephone company was not a telephone company and thus, was liable for corporate license fees under 12-20-50. On appeal to the SC Court of Appeals, the case was remanded to the ALC for a full evidentiary hearing. The taxpayer has filed a petition for certiorari before the State Supreme Court.

ESA, LLC v. South Carolina Department of Revenue, 392 S.C. 11, 707 S.E.2d 431 (2011). This case clarifies the roles of the taxpayer, the Department of Commerce’s Advisory Coordinating Council for Economic Development (Council) and the Department in the process of qualification for job development credits under the SC Enterprise Zone Act of 1995. The Department denied the taxpayer’s claimed job development credits taken against employee withholding taxes because the taxpayer had not created sufficient jobs under the Revitalization Agreement (RVA) negotiated between the taxpayer and the Council. The ALC ruled in the taxpayer’s favor saying that the Department’s interpretation of the RVA’s minimum job requirement was incorrect. On appeal, the SC Court of Appeals affirmed the ALC court, holding the RVA is the product of negotiations between the Council and the taxpayer and that the Department’s audit function in the process did not extend to interpretation of the RVA but only to auditing the sources and uses of funds once the taxpayer received its credits.

Increase Enforced Collections:

In order to increase enforced collections, the DOR was appropriated additional funds in FY11 to hire additional enforcement personnel to enhance audit and collection activity. These activities were to collect \$100 million in increased enforced collections. Enforcement personnel were

hired in two groups, one in late June 2010, and the other in August 2010. Each group attended an extensive two-week training program on DOR systems, law and procedures.

The additional staff in our Collections section focused their attention on working new delinquent accounts. We were able to facilitate payments because the taxpayer's balance was smaller due to less periods being delinquent. Thus, it was more affordable for taxpayers to manage paying as opposed to falling too far behind which would become difficult for the taxpayer.

The DOR's Audit section was able to increase staff in all areas to include Foreign, Domestic and Office Audit. With additional staff, as well as efforts focusing on audits that were on appeal, we were able to conduct and complete more audits and increase our collections in all areas.

Through the above methods and projects, the DOR **exceeded** the General Assembly's goal of \$100 million by collecting \$110,682,535 million.

Implement an Internship Program:

The DOR worked with The University of South Carolina and Clemson University to hire nine student interns to work in the Audit and Criminal Investigations Divisions of the Agency during the summer of 2011. The interns' primary responsibilities included assisting audit or investigations by scheduling bank records or invoices from taxpayers. Additionally, one intern assisted in the testing and development of computer programs for the purpose of better audit selection. Lastly, one intern, who had more educational experience, assisted in the appeals of audits concerning major corporations.

Develop Electronic Filing System for Business Personal Property:

The DOR set a goal in FY11 to develop a program to provide an electronic method of filing business personal property tax returns. This method would not only simplify the filing process for taxpayers, but for the Agency as well. The DOR worked with the South Carolina Business One Stop (SCBOS) to add the PT100 business personal property return to the system. Using SCBOS to file business personal property returns has been a huge success in promoting compliance while simplifying the filing process for taxpayers.

As of the end of June 2011, savings in postage and printing alone for the PT100 return project are in excess of \$320,000. Projected savings for the 2011 calendar year including printing, postage and additional stock fees are expected to reach approximately \$641,000.

Implement CD Fillable Form Options for Sales and Withholding Taxes:

In an effort to streamline the completion of sales and withholding tax forms and greatly improve the processing ability of the paper forms, it was the DOR's goal to work with external and internal resources to create a CD option to replace the booklets for sales and withholding.

Before beginning this initiative, the DOR created a pilot program to gain feedback from taxpayers on a CD option. A small amount of Sales CDs were created and demonstrated during our Sales Tax Forms Workshops. Also, during the months of May and June 2010, the DOR distributed CDs to new sales tax registrants to test the functionality. Feedback from taxpayers was positive.

After gaining initial feedback, the DOR worked with the vendor to test and finalize a Sales CD to be mailed to taxpayers. A cover letter was also prepared to accompany the Sales CD in the mailing.

Marketing for the Sales CDs began in the first quarter of FY11. In October, postcards were mailed to taxpayers notifying them that sales tax booklets would no longer be mailed. A follow-up letter was mailed later in the calendar year. Electronic options were being highlighted in these mailings to alert taxpayers to their options. In addition to these mailings, posters were created for the DOR district offices highlighting the electronic filing options and mini versions of the posters were provided in a tear off pad that taxpayers could take with them. The DOR began mailing the Sales CDs in January 2011.

Discussions were held to replace the withholding tax booklets with a CD option as well. Upon further consideration, resources to create and deliver the CD for withholding tax were not available. The decision was made not to mail booklets and instead, a marketing campaign for the electronic options was promoted to taxpayers with postcards and letters mailed in the second quarter of FY11 to alert taxpayers of the move away from paper booklets. As with sales, posters were created for withholding highlighting the electronic options and were placed in the DOR district offices. While the DOR is not mailing withholding paper booklets, they are still available by request of the taxpayer.

As of the end of June 2011, savings in printing alone for the withholding booklets are in excess of \$126,000. Projected savings for the 2011 calendar year including printing, postage and additional stock fees are expected to reach approximately \$180,000.

Results as of the end of FY11 along with a projection for additional costs for the remainder of the 2011 calendar year indicate that savings realized from moving to CDs rather than mailing booklets for sales tax could be in excess of \$90,000.

Two of the DOR's electronic filing options ESales and EWithholding have seen dramatic increases in the third and fourth quarters of FY11 due to the marketing of the electronic options. ESales for the last five months of the year has shown a 50% or more increase in filings over the same time in FY10 (Figure 7.5.1, p. 49). EWithholding has seen increases of over 100% in the last three months of FY11 which is the period when the first quarter returns were due and impact could be expected. In May 2011, 5,827 electronic withholding transactions were processed, compared to 1,286 in May 2010. This represents a 353% increase (Figure 7.5.2, p. 50).

South Carolina's change in the mailing of booklets for sales and withholding taxes and use of CDs was noted in the February 7th Federation of Tax Administrators Tax Express as "A Green Wind Backed by a Steely Resolution." As noted in this article, South Carolina has joined those states not printing booklets, but encouraging taxpayers to file electronically.

Develop a System to Provide Legal Residence Information to Counties:

In order to improve communication between the Agency and South Carolina Counties, the DOR began work to develop a system that allows counties to submit information to the DOR concerning the legal residence applications at the county level. The DOR also began work to implement a program to verify back to the counties taxpayers who are filing as South Carolina

residents. The system would allow verification between the DOR and counties of taxpayers who should be eligible for the legal residence classification and will aid in the administration of properly granting legal residence classification and the exemption for school operating purposes to only those taxpayers who are entitled to this benefit.

The DOR continues to track potential abuses for local governments while developing a statewide database system. The database system will be completed as other priorities are evaluated.

Drive One-Stop Business Registration:

The goal of the South Carolina Business One-Stop (SCBOS) system is to be a “one-stop” gateway for business and professional registration, licensing and filing for services offered by federal, state and local governments within South Carolina. In collaboration with many agencies across the State, SCBOS identified several projects this fiscal year to further their goal of simplifying electronic registration of businesses (Figures 7.6.1-7.6.3, pp. 51-52). Below is a listing of some of the accomplishments achieved in FY11:

- Provided the business consumer the ability to file the PT100 (Business Personal Property Return) online which replaced the previous floppy disk based process of uploading data.
- Provided redesign of the SCBOS “Start New Business Process” so that the Secretary of State’s Office (SOS) is able to approve the business’ documentation prior to the DOR issuing any permits or licenses. Both the SOS and the DOR have expressed a decrease in the amount of work their staff must do as a result of this project.
- Provided the SCBOS system with “SCBOS Enotify,” a function that allows SCBOS to generate and send electronic correspondence to business contacts.
- Provided businesses in South Carolina with an internet-based solution for filing their Low Earnings and Partial Claims Reports for the Department of Employment and Workforce.
- SCBOS is to be accountable to the SCBOS Executive Committee that meets quarterly to review SCBOS status and assist in program direction. SCBOS continues to maintain a high level of public satisfaction with the scbos.com website. Over 95% of users responded “yes” to the checkout survey question “Would you use this online service again?”
- In a May 2011, press conference, SCBOS was praised by Governor Nikki Haley and Secretary of State Mark Hammond for its success in improving government efficiency and being a business-friendly tool.
- SCBOS continues to be recognized as one of the best one-stop systems in the country. Other states continue to solicit our input as they try to upgrade their one-stop operation.
- Individuals and/or companies from 120 countries have visited the SCBOS website in FY11.

Provide Stakeholder Education and Feedback:

One way to increase voluntary compliance with tax laws is to educate taxpayers on their filing obligations. The DOR accomplishes this goal by educating taxpayers through workshops, seminars, our website and by partnering with outside organizations to provide a helpful and friendly taxpayer education program.

This fiscal year marked the first time that the free Sales Tax Forms and Basic Withholding Tax Workshops were offered to taxpayers as classroom training and as an online webinar. The goal of the Taxpayer Education Program is to reach taxpayers across the state and not just in the

Columbia area. Having the workshops online allows taxpayers to get the information they need without having to leave their business to travel to Columbia. The online webinars have yielded very positive results. Almost half (47%) of the Sales Tax Forms Workshop participants and 57% of the Basic Withholding Tax Workshop participants attended via online webinar. Businesses from Kansas, Illinois, Georgia, North Carolina, Virginia, West Virginia, Florida, Texas, Louisiana and Montana have attended via webinar.

Twenty-one Sales Tax Forms Workshops were held this fiscal year with a total of 231 taxpayers registering. Eight Basic Withholding Tax Workshops were held which trained 98 taxpayers.

The DOR, through SCBOS, has partnered with the Secretary of State's Office to present a Basic Corporate Tax Workshop for corporations. Three workshops were held in FY11 with 30 taxpayers in attendance.

Fee-based seminars are offered for more in-depth training in Sales and Use Tax and are geared toward specific industries. In 2011, the Taxpayer Education Program cut spending and reduced fees for our seminars in order to better serve the taxpayers. The DOR shortened the seminar so it would end prior to lunch, therefore reducing the registration fee from \$60 to \$25 for all seminars.

Seven seminars were held this fiscal year in the areas of Manufacturing, Government and Municipalities, Healthcare, Non-Profit Organizations, Retail Industry, and Educational Institutions. One-hundred eighty-one taxpayers attended these seminars.

DOR also provides instructors for various workshops and seminars around the State, such as the Small Business Tax Workshops, Job Development Credit Seminars and the Clemson Tax Workshops. The Small Business Tax Workshops are conducted by the Department of Employment and Workforce in conjunction with the Internal Revenue Service (IRS). In FY11, the DOR was part of 32 Small Business Tax Workshops that served over 334 taxpayers. Six Job Development Credit Seminars were held by the Coordinating Council for Economic Development with 95 taxpayers attending. Six sessions of the Clemson Tax Workshops were held this fiscal year with a record total of 1,190 tax professionals as well as 21 DOR employees attending.

The DOR provides speakers upon request by a group or association. This fiscal year, the DOR provided speakers for the Greenville County Recreation District, Clemson University, Beaufort County School District, the South Carolina Association of Certified Public Accountants' Industry Conference, State Government Finance Officers, and the Berkeley County Chamber of Commerce. The workshops benefitted 452 participants.

Upgrade the Agency Website:

With the ever-increasing number of taxpayers going online, it is important to have a website that is user friendly and accurate. A special website team was organized during FY10 to upgrade and enhance the DOR's website. An Advisory Board consisting of experienced DOR personnel was formed to oversee the project. During FY11, the Advisory Board and their respective sub-teams met to discuss the redesign and content updates for the website on a regular basis.

The Advisory Board also met with the Agency's Information Resource Management Division to discuss the infrastructure for a new website design. The New York Department of Revenue website is being used as a model for a proof of concept for the new infrastructure to replace the current Microsoft Content Management System.

The Withholding and Property Tax sections of the website have been reformatted for better usability and are currently being maintained and updated by their respective sections. The Sales and Miscellaneous Tax sections have also been reformatted and are expected to go live by August 1, 2011.

The website team along with the Agency's Information Resource Management Division heard search engine presentations on different products. Google Mini Search Engine was chosen and has been installed. It is in the process of being tested and should be integrated on the DOR website in the first quarter of FY12.

Expand the Use of Image and Data Capture:

The DOR is striving to increase the amount of documents that are scanned. Having more documents scanned gives employees throughout the Agency access to additional information at their desktop computer, as opposed to having to request the paper document from our Records section. Scanning also significantly reduces the amount of time returns are processed by eliminating the need to work and rework documents.

Currently, we are scanning all checks through a process called Remote Deposit Capture, which does eliminate the manual transport of physical checks to the bank, but does not eliminate the re-handling of checks multiple times. The Check21 process, which our scanning vendor can support, will get us closer to eliminating all transport of paper checks to the bank while also allowing us to only have to handle the checks one time.

Before taking on new image and data capture projects, the DOR reviewed current scanning processes. It was determined that the current method for scanning the sales tax returns ST3/389 was not acceptable and needed to be revisited. One issue identified was that if the taxpayer did not submit all pages of the ST389, scan operators would have to manually insert the missing pages before the scanning process. Meetings were held with our scanning and keying vendors to discuss the issues and brainstorm possible solutions. When the needed changes were identified, a statement of work was created and the modifications to the process were implemented in December 2010. We no longer have to insert the missing pages from the ST389.

In order to reduce our keystrokes from scanned returns, test returns were submitted to our vendor to determine if any software or hardware changes could be made. Our vendor completed their testing and presented a statement of work that would improve our read rates of the scanned documents. With the changes identified in the test returns, they achieved a 74.7% increase in read rates.

A review of the 2D barcode application for processing corporate and partnership returns indicated the need for improvement. The DOR's Office Operations and Information Resource Management Divisions worked together to make changes so that the process will be a "once and

done” task and the rehandling of these returns will be eliminated. The changes are currently being tested and will be implemented in FY12.

Improve Performance Measurement Systems and Processes:

Each year, performance measures and objectives from the prior year were reviewed to determine the ongoing need to report them. The FY11 Annual Business Plan was completed and new objectives were identified. Our business intelligence tool, Business Objects, provides up-to-date data for analyzing agency performance in reaching these objectives.

Several dashboards were created in Business Objects this fiscal year. A set of Collections dashboards were created so front-line employees and management could monitor the Agency’s collections. A Scanner Statistics dashboard was created so that our Office Operations division could monitor and report on the amount of documents being scanned. Other dashboards include data for our Office Audit section and an Executive Dashboard for senior management to view high level, agency wide measures at a glance. Viewing the information in the dashboards eliminates the calculating and keying of the information into the standard performance measure report format.

Some performance measures, while still very important, do not rise to the agency dashboard level. Several reports were created for division and section level measurement in Business Objects this fiscal year. Some of the data used to create these reports included: collections data, budget information, return processing data, business demographic information and SCBOS data.

Business Objects captures operational data from the South Carolina Enterprise Information System (SCEIS) on a monthly basis to allow users to create management level queries and reports of agency expenditures and human resources data. Yearly comparative information can be used to establish dashboards on agency expenditures and fee collections that could assist management in strategic planning.

To teach employees how to use the reports and dashboards created in Business Objects, 31 classes were held with 212 participants in FY11. Training consisted of how to navigate through and use reports in Business Objects to track and analyze performance.

Streamline Office Operations Business Systems, Processes and Performance:

Our annual customer service survey, conducted and analyzed by the University of South Carolina, found a 96.3% satisfaction level for the amount of time it took to receive a state income tax refund check (Figure 7.2.3, p. 45). This remarkable statistic is due in part to the implementation of hundreds of process improvements in the Office Operations area alone by both frontline employees and management. Some of the improvements implemented were:

Review and refine casual excise tax refund issuance process, forms and procedure documentation – Some refund requests require a supervisor’s approval before issuance. Two extra steps are added to the process in that situation. (The employee passing the refund request to the supervisor, and the supervisor issuing the manual credit.) Security access has been requested to allow two employees in the section to issue these manual credits, thus eliminating two steps in the process.

Review dry cleaning renewal process to reduce duplicate certificate requests – A spreadsheet was created to track all certificate requests and help avoid duplication. Also, a letter was developed informing the participants of the necessity to renew the license.

Review and refine job development credit (JDC) procedures including processing, internal and external reporting, and documentation – A JDC team meets every other week to discuss issues and procedures. In FY11, 31 process improvements were implemented in this area. Improvements in communications with the Department of Commerce (DOC), taxpayers and other areas of the DOR were made.

Evaluate the electronic W-2 information available and determine how to incorporate the data as a useful tool in the withholding annual reconciliation process – Electronic W-2 information is being analyzed for accuracy and completeness. Work continues on the loading of W-2 data for 2010 into the Data Warehouse. After the evaluation of the data is complete, the integration of the W-2 data into the annual reconciliation process for withholding will begin.

Analyze current declaration penalty and interest process for individual income tax to recommend changes in business rules and thresholds – A work request was submitted to bypass certain errors generated as a result of declaration penalty differences between the DOR's system calculation and the taxpayer calculation. A new program will allow these errors to be worked systematically instead of needing manual user intervention. This program began in June 2011, and should save thousands of errors from having to be manually worked.

Reduce paper storage needs via scanning and outsourcing – Office Operations is looking at several processes to determine how we can scan more and reduce our paper storage. Quotes have been approved to scan individual income tax returns, amended income returns, corporate returns and partnership returns to free up space at our Market Pointe warehouse and eventually at the Laurel Street warehouse.

Increase Electronic Filing for All Tax Types:

The primary focus for increasing electronic filing and payment was in preparation for the 2011 filing season. With the elimination of mailing booklets to taxpayers filing sales/use and withholding tax, notification to taxpayers and marketing of sales/use and withholding electronic filing/payment options was completed during the second quarter and the benefits of that marketing is now being realized. Our goal was a 20% increase each month over 2010 (for each respective month) in ESales and EWithholding returns filed. Instead, we have seen increases in the range of 31% to 55% for ESales over 2010 (Figure 7.5.1, p. 49). In May 2011, 5,827 electronic withholding transactions were processed, compared to 1,286 in May 2010. This represents a 353% increase (Figure 7.5.2, p. 50).

In the area of FedState electronic filing, there is an overall increase of 7.02% over 2010 for FedState individual income tax. South Carolina tested and approved two developers for the MEF (Modernized e-file)1040. Through the end of the quarter, the agency has received 23,213 MEF1040 returns. 2011 is the first year South Carolina has supported MEF1040 filing. For Corporate FedState, the DOR saw an increase of 32.16%, compared to 2010 in the number of returns received at the end of the fourth quarter.

With the launch of the 2D barcode processing project for individual income tax (IIT), software developers were recruited to participate for tax year 2010. Eleven developers were approved through the end of the fourth quarter in preparation for tax year 2010 tax filings. The Agency has processed 58,024 2D barcode returns for IIT through the first six months of 2011.

The DOR is utilizing Twitter to communicate regarding a wide range of electronic filing and payment issues (reminders of filing deadlines, Free File, Schedule A processing, and Sales CD filing).

The Department continues to be a leader in the percentage of individual income tax returns received that are filed by electronic/non-paper methods. The latest available information (April, 2011) from the Federation of Tax Administrators (FTA) placed South Carolina tied for sixth in the nation. South Carolina's percentage of 86% is a 5% increase from FY10 (Figure 7.1.2, p. 41).

In total, electronic collection processes have allowed the Agency to collect an average of 77.77% of tax dollars electronically, a 1.85% increase from FY10 (Figure 7.3.3, p. 47). Due to the major strides in the promotion and increase of electronic filing, the DOR reduced deposit opportunity cost dollars to \$17,548 in FY11, a decrease of 18% over the past year (Figure 7.3.2, p. 46).

Increase Employee Knowledge of Leadership Best Practices:

During FY 2011, an overall plan was developed and approved for offering a Leadership Program to employees on a continual basis. Leadership and Customer Service Programs will be offered on a rotating basis throughout the calendar year. The Leadership Program was offered in FY11, while the Customer Service Program will begin in FY12.

In the fall of 2010, members of management were asked to nominate employees from their divisions who they would like to participate in the Leadership Program. They were asked to prioritize their list of nominees. From this list, 30 employees were chosen.

Leadership courses began in November. A "kickoff" of our Leadership Program was held in which the Genuine Qualities and Basic Principles of Leadership and an introduction to customer service were discussed. Other topics that have been taught are Providing Constructive Feedback, Developing Others, Giving Recognition and Speaking to Influence Others. During the final quarter of FY 2011, additional topics that were taught were Listening in a Hectic World, Identifying Priorities & Setting Verifiable Goals and Managing Your Priorities. The Training team facilitated two sessions during the month for each topic. In addition to attending the eight classes, the 30 participants of the Leadership Program were also required to complete a written assignment describing how they translated the skills learned in class to their current work situations.

The Customer Service Program is currently being developed based on requests from members of management. Meetings are being held with management from several divisions to determine specific needs. Also, the Training staff has done research on customer service materials and has begun working on developing a customer service training plan. Work is also underway to determine how many employees will need to be trained. The development of a training schedule

and associated logistical tasks has begun. Basic materials for the Customer Service Program have been purchased and the course development has also begun.

Increase Process Improvement Awareness:

During this fiscal year, a Process Improvement Program totaling seven different classes was developed and taught to Office Operations staff. Four kickoff sessions were held and 21 teams (total of 81 employees) selected a process to improve and went through the program. Each class was designed to facilitate the teams through the “seven step problem solving process.” The teams began by defining their problem and writing a problem statement. One of the teams’ first tasks was to define their current process. Classes were held in General Flowcharting, Identifying “Root Causes,” Data Gathering, Interpreting Data and Solutions Analysis. The teams developed presentations to show management their projects. After their presentations to management, a graduation and recognition luncheon was held in celebration of their efforts and improvements to their processes.

Training staff continued to work with the graduating teams in order to help them implement any of the training needs that were identified with their solutions. Meetings were scheduled with Office Operations management to prioritize their needs. Process improvement “checkpoint” sessions have also been planned and scheduled starting in July 2011. Report outs will be given at the checkpoints on the teams’ status and Training staff will be instructing additional “tools” or topics to assist the teams with their needs during these checkpoints.

Dates have been planned starting in October 2011, to rollout our second round of the Process Improvement Program. A meeting was held to plan for the marketing of the classes and the continuation of selection of teams to participate. Our hope is to continue expanding the teams to “cross-divisional” members so that processes can be streamlined across the Agency and not just in work teams.

Enhance Tax Law and Systems Training:

It is important that our tax professionals are highly knowledgeable of both the tax laws and their duties in administering them. We use both structured training and on-the-job training to support this goal. This training includes technical tax law topics, disclosure training for all DOR employees, State Legislative Updates and systems training. This year a minimum of 12,082 hours were dedicated to formal classroom training of employees. This training averages 15.84 hours per authorized FTE position. The following chart lists some of the classes held in FY11:

| Tax Systems: | Tax Law: | Other: |
|--|----------------------------------|---------------------------------|
| Business Objects | Disclosure Awareness | DOR 101 |
| South Carolina Integrated Tax System | Criminal Investigation Referrals | Basic and Intermediate Research |
| Automated Collections System | Tax Forms | Legislative Updates |
| Automated Receivable Management System | Sales Law | Structured On-the-Job Training |
| Business Taxpayer Registration | Cash Receipt Procedures | Train-the-Trainer |
| Sales and Use Tax System | | |
| Taxpayer Accounting System | | |

I.3. Key Strategic Goals:

Our strategic plan focuses our efforts in four key result areas with associated strategies. The current key strategic goals are detailed in the Strategic Planning Chart in Category 2.

I.4. Key Strategic Challenges:

The key strategic challenges that were revealed through our external and internal scans of the SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis for the Strategic Plan include:

- Meeting the ever-increasing expectations of stakeholders and customers
- More online 24/7 connections for our customers
- Tax reform
- Attracting and retaining candidates for employment within the State pay limitations
- Increasing need for employee technical training

I.5. 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, which enables us to capture the most immediate needs of the Agency. 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. They are incorporated into our annual business plan.

II. Organizational Profile

II.1. Main Products and Services:

The main products and services include:

- Taxpayer assistance
- Tax forms and instructions
- Tax information (manuals, brochures, opinions, policies, etc.)
- Taxpayer workshops and other learning opportunities
- Website education, information and tools
- Online 24/7 registration and inquiries
- Licenses
- Collection services
- Tax education, advisory and valuation services to local governments
- Reimbursement of tax dollars to local governments
- Constituent services
- Legislative services

These products and services are delivered through face-to-face contact, direct mailings, through the internet, distribution centers and in classroom settings.

II.2 and 3. Key Customer and Stakeholder Groups:

Below is a complete listing of 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

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Compliance Office
FormsFax and Web Forms
Six District Offices
Satellite office hours at 18 locations in SC
Summary of current year's new tax legislation
Policy document listserve
Experts on TV
Speakers Bureau/Public Speaking/Toastmasters
Credit card payment options
Tax specific dedicated phone lines
Tax specific email proxy boxes
Electronic Funds Withdrawal (EFW) payment option
Electronic filing options for tax returns
Customer Contact Center
Freedom of Information Act
News Release Listserve

- **Elected Officials**

Revenue collection and reporting
Legislative liaisons
Drafting legislation assistance
Courtesy calls
Constituent services
Proactive response to issues

- **Other state agencies**

Revenue collection and reporting
South Carolina Business One Stop (SCBOS)
Job Development Credit workshops with Commerce
Dyed Fuel Program
Use Tax compliance information
Seats in our training sessions
Governmental Enterprise Accounts Receivable (GEAR)
Debt set-off program
Budget and Control Board
Assistance to Department of Commerce in recruitment of industry

- **Individual taxpayers**

Forms drive-through
Publications for individual taxpayers
FreeFile, web extensions and declarations
Forms in libraries

- **Business taxpayers**

Sales and withholding tax listserve
Taxpayer education listserve
Various workshops
SCBOS
Job Development Credit (JDC) workshops
Business development
Economic Incentives book
Corporate income tax summary published with the Bureau of National Affairs
Joint brochure created with SCBOS promoting electronic filing
Special efforts related to sales tax holiday
Special efforts for new local option tax counties
Special efforts related to SC Immigration Act

- **Tax practitioners**

Forms design teams
Joint seminars with IRS/ERO (Enrolled Agents)
Articles in the CPA newsletter

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- Speakers at CPA seminars
- Fed/State filers' handbooks
- Speakers for Clemson Tax Workshops
- Speakers for SC Chapter of the National Association of Tax Professionals
- **Regulated Businesses (bingo, alcoholic beverages, tobacco)**
 - Alcoholic Beverage Licensing (ABL) tracking process
 - Bingo processing system
 - Bingo paper rules
 - Tobacco tax
- **Statewide property taxpayers (e.g., manufacturers, motor carriers, utilities, car lines)**
 - Changes to FILOT
 - Adding business personal property (BPP) review
 - Streamlining motor carrier property tax administration
 - Streamlining BPP administration
- **Local Governments (property tax administration, local option taxes, index of taxpaying ability, exemptions)**
 - Refund offset
 - Governmental Enterprise Accounts Receivable (GEAR)
 - Computer Assisted Mass Appraisal (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
 - Audit of reimbursement for legal residents
 - Training for local government officials
- **Federal Government**
 - IRS refund offset
 - IRS Fed/State liaison
 - IRS classes
 - Streamlined sales tax initiatives
- **Other state governments**
 - Southeastern Association of Tax Administrators (SEATA)
 - Federation of Tax Administrators (FTA)
 - Exchange of use tax information
 - Benchmarking processes
 - Supply motor fuel training instructors nationwide
 - Multistate Tax Commission (MTC)

II.4. Key Suppliers and Partners:

Our key suppliers are the citizens of South Carolina who supply us with tax revenues and information. We also rely on the Department of Employment and Workforce (DEW) as well as other state and local governmental entities to supply required information. The Chief Information Office of the Budget and Control Board is a major supplier of technology infrastructure for the Agency and the Department of Corrections provides for the construction of cubicles of our renovated space. Traditional suppliers include Dell Computers, forms manufacturers and other suppliers of services and supplies.

Not only do we consider our partners to be many of the same as those included in our stakeholder group, but also include contract personnel we have working on our SCITS and Data Warehouse. Additionally, we have numerous partners with our South Carolina Business One Stop registration program. Our partners include:

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Secretary of State
Department of Health and Environmental Control
Department of Consumer Affairs
Department of Transportation
Public Service Commission
Print vendors for tax forms
Software vendors for electronic forms and filing
Department of Employment and Workforce
Clemson University Extension
Department of Labor, Licensing and Regulation
Department of Commerce
SC Chamber of Commerce
Municipal Association of SC
SC Association of Counties
Budget and Control Board
Board of Economic Advisors
Association of Certified Public Accountants (CPA)
Internal Revenue Service (IRS)
Small Business Chamber (Cyberwoven)
Probation, Parole & Pardon Services
US Small Business Association (SBA)
Department of Insurance
SCANA
SC Education Lottery
Department of Motor Vehicles
Small Business Centers
Department of Health & Human Services
SC Commission on Higher Education
Nonpublic Postsecondary Institution Licensing
Government Finance Officers Association of SC
SC School for the Deaf and the Blind
Greater Columbia Chamber of Commerce
Richland County Public Library
SC Board of Accountancy

II.5 and 6. Operating Locations and Number of Employees:

As of the end of FY11, the Agency had a total of 762.5 authorized full-time permanent slots. Of those, 739.5 are state funded and 23 are other funded. These employees work in two central offices and six district offices throughout South Carolina. In addition, we have non-resident tax auditors stationed in six major metropolitan areas across the United States. We supplement our seven taxpayer service centers by staffing 18 “satellite” offices periodically throughout each month. Our permanent workforce has been supplemented by approximately 38 contractors, and 88 temporary employees.

II.7. Regulatory Environment:

We administer laws under Titles 2, 4, 6, 11, 12, 16, 23, 33, 44, 46, 48 and 61 of the South Carolina Code of Laws, and we comply with the relevant Internal Revenue Service code sections. Also, we adhere to OSHA, employment and leave laws as well as any other customary regulations with which organizations must comply.

The Department is also a regulatory agency. We administer 32 state taxes and numerous fees, credits and exemptions. We process 9.48 million transactions annually (Figure 7.1.7, p. 44) and collect approximately 92% of the state’s general fund. The Agency also regulates and licenses

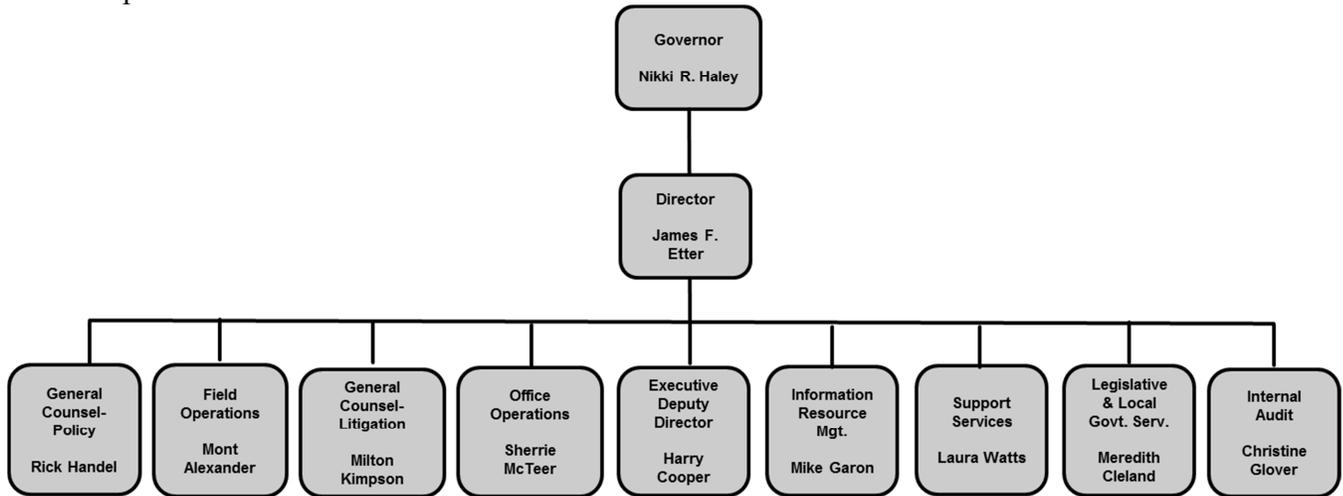
retail establishments, bingo operations and alcoholic beverage sellers. The Agency is in direct contact with almost every South Carolina resident and many non-resident taxpayers and corporations. We manage our enterprise in a customer-focused, fair and efficient manner.

II.8. Performance Improvement System:

The DOR continues to use the improvement system described in Category 6 (Process Management).

II.9. Organizational Structure:

Our organizational structure is shaped around core business competencies and support functions. The DOR is a part of the Governor’s Cabinet. The chart below shows that structure and leadership.



Accountability Report Appropriations/Expenditures Chart

Base Budget Expenditures and Appropriations

| Major Budget Categories | FY 09-10 Actual Expenditures | | FY 10-11 Actual Expenditures | | FY 11-12 Appropriations Act | |
|-------------------------------|------------------------------|----------------------|------------------------------|----------------------|-----------------------------|----------------------|
| | Total Funds | General Fund | Total Funds | General Fund | Total Funds | General Fund |
| Personal Service | \$ 27,769,646 | \$ 25,932,227 | \$ 28,912,981 | \$ 28,095,603 | \$ 30,354,877 | \$ 29,171,555 |
| Other Operating | \$ 27,769,646 | \$ 2,441,197 | \$ 23,365,025 | \$ 3,338,209 | \$ 23,208,026 | \$ 3,012,675 |
| Special Items | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Permanent Improvements | \$ 72,000 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Case Services | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Distributions to Subdivisions | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Fringe Benefits | \$ 8,234,452 | \$ 7,560,282 | \$ 9,153,727 | \$ 8,827,664 | \$ 9,557,827 | \$ 9,057,407 |
| Non-recurring | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total | \$ 63,845,745 | \$ 35,933,706 | \$ 61,431,733 | \$ 40,261,476 | \$ 63,120,730 | \$ 41,241,637 |

Other Expenditures

| Sources of Funds | FY 09- 10 Actual Expenditures | FY 10-11 Actual Expenditures |
|-----------------------|-------------------------------|------------------------------|
| Supplemental Bills | \$ - | \$ - |
| Capital Reserve Funds | \$ - | \$ - |
| Bonds | \$ - | \$ - |

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Major Program Areas

| Program Number and Title | Major Program Area Purpose (Brief) | FY 09-10 Budget Expenditures | FY 10-11 Budget Expenditures | Key Cross References for Financial Results* |
|---|---|---|---|--|
| I.A Administrative & Program Support | Agency administration and Internal Audit functions. | State: \$545,914 Federal: \$0 Other: \$0 Total: \$545,914 % of Total Budget: 1% | State: \$655,661 Federal: \$0 Other: \$0 Total: \$655,661 % of Total Budget: 1% | 7.2.1, 7.2.3, 7.3.1-7.3.2, 7.6.5 |
| II.A Programs & Services -- Support Services | Human Resources, Training and Development, Quality, Procurement & Facilities Mgmt, Budget & Finance, Information Resource & Technology Management and computerized systems management functions. | State: \$7,012,812 Federal: \$0 Other: \$20,000,372 Total: \$27,013,184 % of Total Budget: 40% | State: \$7,927,328 Federal: \$0 Other: \$20,061,524 Total: \$27,988,852 % of Total Budget: 45% | 7.6.1-7.6.3 |
| II.B Programs & Services -- Revenue & Regulatory Operations | Office and field tax audit & collection functions, tax revenue processing, Property Tax Administration and appraisal, agency litigation and Regulatory (Alcoholic Beverage Licensing and Bingo) Administration. | State: \$20,283,532 Federal: \$0 Other: \$2,174,376 Total: \$22,457,908 % of Total Budget: 33% | State: \$22,330,227 Federal: \$0 Other: \$782,669 Total: \$23,112,897 % of Total Budget: 38% | 7.1.1-7.2.3, 7.3.3, 7.5.1- 7.5.2 |
| II.C Programs & Services -- Legal Policy & Legislative Svcs | Agency General Counsel; tax policy, bankruptcy matters and legislative services. | State: \$531,166 Federal: \$0 Other: \$0 Total: \$531,166 % of Total Budget: 1% | State: \$520,596 Federal: \$0 Other: \$0 Total: \$520,596 % of Total Budget: 1% | 7.6.4 |
| III.C Employee Benefits -- State Employer Contributions | Employer (agency) share of fringe benefits paid on state employee salaries. | State: \$7,560,282 Federal: \$0 Other: \$674,170 Total: \$8,234,452 % of Total Budget: 12% | State: \$8,827,664 Federal: \$0 Other: \$326,063 Total: \$9,153,727 % of Total Budget: 15% | 7.4.1-7.4.3 |

Below: List any programs not included above and show the remainder of expenditures by source of funds.
Expenditures to record interest expense on tax refunds in accordance with GAAP are not included above. Expenditures recorded in program #II.A, Support Services. FY10 amount \$3,675,533. No similar expenditures were recorded in FY11.

| | | |
|-----------------------------------|------------------------------|------------------------------|
| Remainder of Expenditures: | State: \$0 | State: \$0 |
| | Federal: \$66,009 | Federal: \$0 |
| | Other: \$3,609,524 | Other: \$0 |
| | Total: \$3,675,533 | Total: \$0 |
| | % of Total Budget: 5% | % of Total Budget: 0% |

*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.

III. Elements of Malcolm Baldrige Criteria

Category 1 – Senior Leadership, Governance and Social Responsibility

1.1a-d. Senior leadership in the Agency consists of the Director James F. Etter, an Executive Deputy Director, Senior Administrators and Administrators of each of the major operating units. The Agency's leadership sets, deploys and communicates to customers and stakeholders both short and long-term direction and organizational priorities through the strategic planning process, the annual business planning component of that process and the five-year business plans developed for agency level objectives. Performance expectations that are detailed in each employee's position description and EPMS are tied to the Agency's four key result areas of the strategic plan. The strategic plan outlines our organizational values as described in the Executive Summary and includes a focus on innovation, empowerment, knowledge and ethical behavior.

1.2. In FY10-11, the leadership team continued its focus on both internal and external customers by supporting activities for progress on our 17 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.

Dashboard performance indicators are reviewed by the management team. Owners of the processes involved with any agency measurements are tasked with monitoring and using the data for process improvement and decision making. Progress on each annual business plan objective is reported quarterly. The DOR continues to use Business Objects to access and analyze the Data Warehouse and other internal data systems. Business Objects assists our processing sections to monitor the effects of newly implemented process improvements. Business Objects will greatly enhance employees and management in the monitoring of their measures and adjusting performance in real time vs. at the end of a reporting period.

1.3. The strategic planning process we employ forces us, through the SWOT process to look at the current and potential impact on the public of our products, programs, services, facilities and operations. This process allows us to develop organizational objectives and allocate resources appropriately to address the issues gleaned from the information and data collected. See Category 2. The DOR has an active risk management program and annually reviews operating areas to assess risks and exposures to minimize potential loss. The DOR also tries to "pilot" any program before implementing new changes to gain customer feedback.

1.4. The Chief Financial Officer and staff, along with the Internal Audit staff are responsible for the accuracy and timeliness of reporting. The DOR is audited twice annually by the State Auditor's Office for financial audits, audited for procurement by the Materials Management Office of the Budget and Control Board and audited for disclosure of federal information by the IRS. These external reviews have found no major findings in several years. Our legal counsel, senior management team and the Internal Audit staff have policies, procedures and measures in place to ensure that the Department maintains accountability for all revenue and regulatory requirements. Our Internal Audit staff, who reports directly to the Director of the agency, performs programmatic and fiscal reviews and follows-up on audit findings to ensure no improprieties exist. Additionally, our disclosure training program requires employees and contractors to be recertified annually on 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. In addition, all terminating employees and contractors are also required to sign an exit disclosure statement acknowledging that they are legally held to the same high standards of non-disclosure even after their employment has ended.

1.5. We continue to refine our set of high level measures (dashboard measures) that are reported on an ongoing basis. These measures, discussed in 4.3, allow the leadership team to monitor the effectiveness and efficiency of the agency processes.

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

1.6. Quarterly employee coaching sessions are used 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 leadership within the organization. Senior leadership supports leadership development both formally through training and informally through coaching. The DOR participates in and supports the Certified Public Manager program, as well as the Associate Public Manager program. Not only do employees participate in these state-wide leadership programs, but they also attend the DOR's Leadership Program. Thirty employees participated in the Agency's Leadership Program in FY11. This is an eight-month program where employees learn leadership best practices.

Our values represent our guiding principles or the things about which we care most as we carry out our mission. Director Etter and senior leadership not only model these beliefs, but also clearly and consistently articulate 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 dedication to these principles by participating in training and teams and by using the process improvement tools and process.

1.7. Senior leadership continuously mentors and coaches future leaders and participates in leadership development activities to ensure that leadership succession occurs seamlessly. Through this process, senior leadership not only promotes, but also personally participates in succession planning and development of future leaders. Predictable exits of leaders are planned for and sometimes we hire ahead to have a smooth transition between leaders. Opportunities such as the Process Improvement Program are provided for front-line employees and management to participate in improvement projects to hone their leadership and process improvement skills. Senior leaders are "guest speakers" during classes in the Leadership Program where they discuss their experience as a leader as it relates to the class topics. These received quite impressive feedback. Senior leaders also coach and counsel, formally and informally, with many individuals with whom they interact in the course of agency business.

1.8. Senior leaders maintain a focus on improvement through the objectives and projects developed and detailed in the annual business planning step of the strategic planning process.

All employees are encouraged to look for improvement opportunities while focusing on daily work or agency-wide objectives. Employees at our Market Pointe location use a Microsoft SharePoint worksheet to suggest process improvements to management. Senior leaders are also involved in the Agency's Process Improvement Program.

1.9. Senior leaders are a key part of creating an environment that fosters organizational and workforce learning. This environment begins from very early in a new employee's life at the DOR. During the orientation class "DOR 101," new employees are able to "meet and greet" the senior leadership. The Director sets the tone for this culture and the leadership team supports this message in everyday business dealings at the Agency. Process improvement is an important key theme of the Agency.

1.10. Senior leaders communicate with, engage, empower and motivate the workforce throughout the organization most importantly by "leading by example." The strategic plan guides the focus of the Agency business priorities. Its four key results (improve compliance; establish and maintain strong stakeholder relationships; maintain effective and efficient agency and enterprise services; and ensure a capable, satisfied and diverse work team of DOR employees) are part of each employee's job. Senior leaders communicate this priority in person and through their management staff. Employees are empowered to make a difference, to be accountable and to go beyond what is expected. In turn, the senior leadership team recognizes exemplary performance and effort through individual and team recognition. "Lunch with the Director" is a popular recognition tool. Stars are nominated by peers and management for this lunch. Another use of these luncheons is for state service recognition. Each week, a Director's Shining Star is selected from nominations for our main office and our processing center. This Shining Star receives a certificate and a reserved parking spot for the week.

1.11. The Agency supports and strengthens professionals in various sectors as well as the community at large, 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. Teams in the Agency 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 Compliance Office and the Taxpayer Advocate are avenues for citizens to resolve concerns. Also, our Contact Center is used not only to help the taxpayer, but also to gain invaluable input to agency processes. We continue to train Contact Center employees and see this as a vital part of the Agency's listening and learning approach to gain input from the community at large.

The Agency continues to support the government community as well. For example, the DOR is a primary partner in Governmental Enterprise Accounts Receivable Collections (GEAR) and SCBOS processes. These projects have a direct positive impact on reducing the burden of compliance with our tax laws. On the state level, our employees lead or participate in multi-agency teams to improve the processes of government. We are actively involved with professional groups in leadership roles, such as the Federation of Tax Administrators (FTA) and the Southeastern Association of Tax Administrators (SEATA). Director Etter serves on the

Coordinating Council for Economic Development, is an ex-officio member of the South Carolina Board of Economic Advisors and is the Vice President of SEATA. These collaborative efforts help us to identify best practices, but also give us the opportunity to be a partner in continuously improving all governmental services for our citizens.

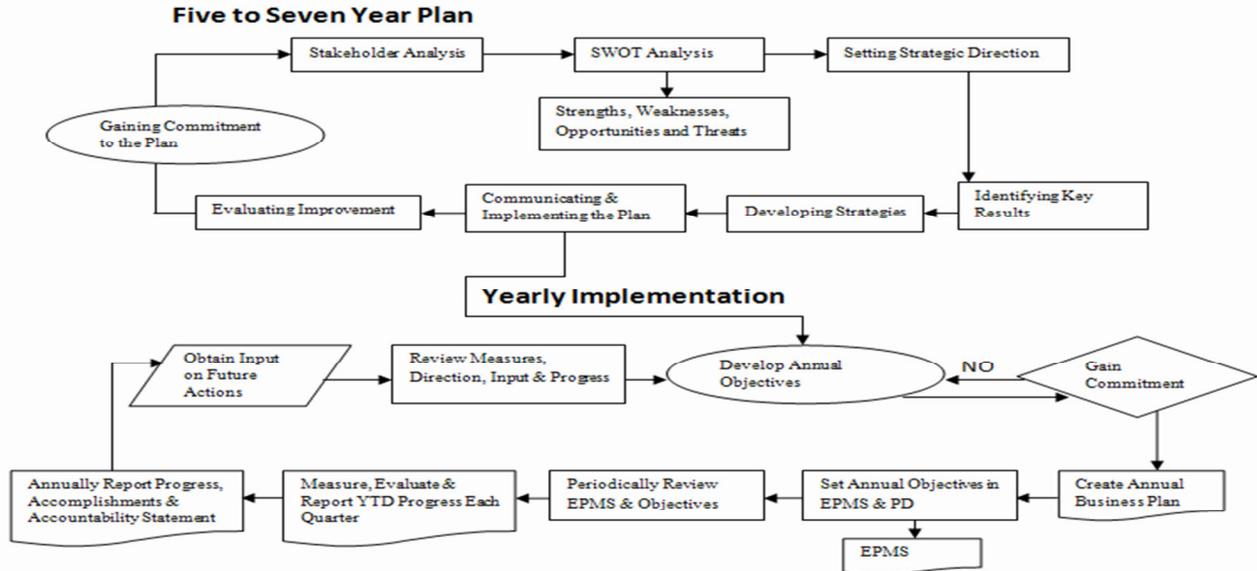
We partner with business groups, such as the State Chamber of Commerce, Municipal Association, Association of Counties, the Small Business Development Centers, the Hospitality Association, the Manufacturers Association, the SC Hospital Association, the SC Manufacturers Alliance and others on joint projects and provide education to these groups. Our collaboration with state partners includes the Departments of Transportation, Labor Licensing and Regulation, Commerce, Health and Environmental Control, the Education Lottery, South Carolina Association of Auditors, Treasurers and Tax Collectors (SCATT) and the South Carolina Association of Assessing Officials (SCAAO) to name but a few. We regularly serve as a pilot site with the IRS to bring taxpayer friendly programs to South Carolina citizens, such as issuing federal employer tax identification numbers. We make many presentations to a wide variety of audiences upon request about both our taxation and leadership approach in a number of areas.

Senior leaders are highly involved in the support of these community endeavors. Both senior leaders and line employees participate in planning and advocating for these projects. They include the United Way, the Good Health Appeal, Cooperative Ministries, the Red Cross, Harvest Hope Food Bank, the national Multiple Sclerosis MS 150 bike tour, the Leukemia and Lymphoma Society, Community Healthcare Charities and our community schools.

Teams also review policies regarding the application of revenue laws in a manner consistent with legislative intent warranting the highest degree of public confidence in the DOR's integrity, effectiveness and fairness.

Category 2 – Strategic Planning

2.1a. The Agency's strategic plan is the basis for both our long and short-term planning processes. Our strategic plan is a five to seven year plan and employs an annual business planning process to identify, prioritize and report progress in four key result areas. 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. Below is a graphic of the Department's strategic planning model.



We continue to focus on our customers 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 main themes that surfaced from recent internal assessment and employee focus groups included the need for more technical training, a continued focus on workforce planning, salaries and benefits and employee career paths.

Our external scan revealed issues related to increased intergovernmental interactions as it relates to smaller government, the ability of state government in general and the DOR specifically to recruit and retain the best employees and candidates, the ever increasing dependency of customers and employees alike on technology solutions and the expansion of a non-English speaking population.

2.1b-f. The key results, strategies, objectives and projects of the strategic plan focus the Agency on addressing short and longer-term priorities related to risks of any nature as well as the shifting technological, regulatory and customer preference arenas. The DOR has a long range plan for improved use of technology. Significant technology initiatives in support of the Agency’s strategic objectives include: SCITS, SCBOS, Data Warehouse and Business Objects. As described in 2.1a above, through the SWOT analysis we have taken into consideration our workforce capabilities and needs, the opportunities and barriers we are and will be facing and organizational continuity issues that would need to be addressed in emergencies.

Having all employees’ position descriptions and subsequent evaluations tied to the strategic plan enables us to seamlessly execute our strategic plan.

2.2. All of our strategic objectives were developed through thorough market research and with input from our stakeholders. This information was synthesized to determine the strategic challenges we would be facing over the next five to seven years.

Our business plans are closely aligned with our strategic plan. The 17 major business objectives of our annual business plan tie directly to one or more of the four key results. Since the strategic plan process described in 2.1a above identified the major opportunities, threats and challenges facing us over the next five years, we were able to identify and align our business objectives to address the needs.

2.3. We develop our action plans through our annual business planning process. Each year, 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. 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. Our agency level annual business plan focuses on significant multi-year business plans, typically that involve a combination of multiple DOR divisions and our external stakeholders.

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 1.1. In addition, quarterly coaching sessions are strongly encouraged 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 17 agency level business objectives; (b) quarterly year-to-date progress reports; and (c) regular review of the dashboard measures which tie to our key results areas.

2.4. The strategic plan is communicated in group meetings and is reinforced by the supervisors within each division. In addition, other types of communication include other media such as e-mail, brochures, posters and through our monthly DOR newsletter. For new employees, an orientation session called "DOR 101" educates employees about the Agency, the strategic plan and the strategic planning process. Annual business plans are deployed throughout the Agency by the division leadership teams. Individual work teams also identify continuous improvement projects that support strategic business needs.

2.5. As described in 2.2 above, we measure our progress on each action plan in the annual business plan through quarterly reporting. In addition, these plans are monitored by the respective leaders of the objective teams on a continual basis and problems or obstacles are reported to the senior leadership team on a timely basis.

2.6. Evaluation and improvement of the strategic planning process occurs annually through our planning cycle. In addition, we employ the Institute for Public Service and Policy Research as strategic planning consultants as needed. Annually, we look to last year's progress, evaluate current needs and establish goals for the year that reflect the needs. Through the use of the "plan-do-check-act" improvement cycle, we not only review the plan itself, but also the process as we establish new plans.

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2.7. A listing of our key results is located at <http://www.sctax.org>, under the Strategic Plan button. As shown in the Strategic Planning Chart below, our plan includes four key results areas and their associated action plans along with the key performance measures. Our key results are: Maximized Compliance, Strong Stakeholder Relationships, Effective and Efficient Agency and Enterprise Services and Capable, Satisfied and Diverse Work Team.

| Program Number and Title | Supported Agency Strategic Planning Goal/Objective | Related FY 10-11 Key Agency Action Plan/Initiative(s) Unless otherwise noted, all objectives listed below are multi-year, major business projects. Milestones are set for each project to be completed during the fiscal year. | Key Cross References for Performance Measures* |
|---|--|--|--|
| I.A Administrative & Program Support | Key Result 2 – Strong Stakeholder Relationships Key Result 3 - Efficient and Effective Agency and Enterprise Services | Streamline Office Operations Business Systems, Processes, & Performance Expand the Use of Image and Data Capture | 7.1.3-7.2.3 |
| II. A Programs & Services - Support Services | Key Result 1 – Maximize Compliance Key Result 2 - Strong Stakeholder Relationships Key Result 3 - Efficient and Effective Agency and Enterprise Services | Drive One-Stop Business Registration Provide Stakeholder Education and Feedback Implement CD Fillable Form Options for Sales & Withholding Taxes Develop Electronic Filing System for Business Personal Property Increase Electronic Filing for All Tax Types Improve Performance Measurement Systems and Processes | 7.6.1-7.6.3 7.2.1, 7.2.3 7.1.2, 7.2.2, 7.3.3, 7.5.1, 7.5.2 All measures in category 7 |
| II.B Programs & Services - Revenue & Regulatory Operations | Key Result 1 – Maximize Compliance Key Result 2 - Strong Stakeholder Relationships Key Result 3 - Efficient and Effective Agency and Enterprise Services | Find Non-filers Maintain a Data Warehouse Upgrade the Agency Website Increase Enforced Collections – Collect \$100 million in increased enforced collections in FY11 | 7.1.1, 7.3.1 |
| II.C Programs & Services - Legal Policy & Legislative Svcs. | Key Result 1 – Maximize Compliance | Maximize Voluntary Compliance through Fair Share Activities Develop a System to Provide Legal Residence Information to Counties | 7.6.4 |
| III.C Employee Benefits-State Employer Contributions | Key Result 4 - Capable, Satisfied and Diverse Work Teams | Enhance Tax Law and Systems Training Increase Employee Knowledge of Leadership Best Practices Increase Process Improvement Awareness | 7.4.1-7.4.3 |

Category 3 – 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; elected officials; and federal, state and local governments. We define our customer groups by the products and services they require. The defining of needs 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 to learn what our customers' needs and expectations are. As mentioned above and in Category 2, we utilized the strategic planning SWOT process to conduct focus groups with our major customers and stakeholders to ascertain future expectations of our processes and employees. The focus groups are an invaluable listening and learning mechanism.

Updating our website is a major project and will enhance the 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 and walk-ins on problems, preferences, concerns and trends. Our monthly Sales Tax Forms and Basic Withholding Tax Workshops, the Small Business Workshops and the various other taxpayer education session participants are encouraged to provide feedback via written evaluations upon conclusion of each class. We use various methods to stay abreast of current events that could potentially affect our tax administration.

We are required to update our forms annually. Employee teams are formed each year to accomplish these updates and external focus groups are used to gain input for our individual income tax, sales and use tax, corporate tax, miscellaneous tax, motor fuel tax and withholding tax forms. Forming employee teams has proved invaluable in helping to build relationships and, more importantly, in gaining greater knowledge of the ever-changing needs and expectations of customers and businesses.

3.3. The Department provides many access mechanisms for our external customers that allow them to seek information, conduct business and make complaints. For example, the DOR established a single customer sign-on for access to all DOR web applications requiring only one user name and password. This single sign-on allows our customers access to the information about their business in a more timely and streamlined fashion. Our website continues to be built around customer needs and expectations and allows them to make suggestions and ask questions about requirements. We have made major strides in making our website compliant with Federal Section 508 that requires electronic and information technology accessibility for citizens with disabilities. In the previous section on listening and learning opportunities (3.2), the mechanisms

described provide customers the opportunity to not only access DOR resources and expertise, but also provides opportunities for feedback about services provided and other needs.

3.4-5. We view every complaint or comment as an opportunity to improve our services. Strategies for one of our agency level objectives have included holding a number of focus groups to get feedback on our tax forms. As mentioned in 3.2, we look to the workshop participants and to a wide variety of other stakeholders to help us keep our services relevant and to identify additional opportunities for improvement. We also use workshop participants as a “pilot” group to test new products, such as the Sales CD. Many of the enhancements, improvements and additions to our electronic means come directly from customer and stakeholder trends. Including feedback from tax practitioners, tax accountants, CPAs and taxpayers for our forms design teams has proved invaluable in simplifying content and format of information on our tax forms.

The Agency has employed several methods to collect customer/stakeholder satisfaction and dissatisfaction input to determine the strength of our relationships and to improve processes. These include:

- 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 (Figures 7.2.1 and 7.2.3, pp. 44, 45).
- Taxpayer education initiatives, such as our Sales and Use Tax Seminars, our Tax Forms Workshops and the Clemson Tax 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 helps 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.
- Participation with the CPA Association provides critical information about forms, processes and needs.

3.6. 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 Organizational Profile. 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 website, 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. Not only does SCBOS aid taxpayers in starting a business, it also fosters collaboration and partnerships with other public entities. These include: Secretary of State’s office, Department of Employment and Workforce, Department of Health and Environmental Control, Department of Consumer Affairs, Department of Labor, Licensing and Regulation, 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. Through our collaborative efforts we have streamlined the processes for new and existing businesses to obtain or renew licenses, permits, or registrations (LPR), make changes to existing LPR and file and pay taxes online. The collaboration efforts with other public entities 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.

The Agency holds workshops to update taxpayers on tax law changes and forms revisions (i.e., Clemson Tax Workshops, Small Business Workshops, Withholding 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. The DOR provided speakers for the Greenville County Recreation District, Clemson University and the Beaufort County School District this fiscal year. These workshops allow us to gain valuable input to meet and exceed customer and stakeholder expectations as well as help to build positive relationships with these customer and stakeholder groups.

The Agency has structured ways in which to educate and to be responsive to the various needs of our customers. In addition to personal telephone assistance, online learning, 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;
- Twitter updates to taxpayers and tax professionals about filing deadlines and the activation of new programs and tools for electronic filing;
- Advisory opinions providing formal policy statements of the Department;
- Brochures for taxpayers, including:
 - Moving to SC: A Tax Guide for New Residents*
 - Guide to SC Tuition Tax Credit*
- Publications for businesses and tax professionals including:
 - S.C. EFT Program Guide*
 - South Carolina Sales and Use Tax Manual*
 - Summary of South Carolina Corporate Income Taxes*
 - South Carolina Property Tax* (each year)
 - Simplifying Business Services*
 - South Carolina Department of Revenue Legislative Update* (each year)
 - South Carolina Tax Incentives for Economic Development* (each year)
 - Business Tax Guide*
 - Starting a Small Business in South Carolina*
 - South Carolina Cigarette and Tobacco Tax Manual 2011*

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

Our website's "Frequently Asked Questions" provides solutions for answers to common 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 website allows for certain tax filings and credit card payments, business registration and answering questions. Both current and past year tax forms are available. Also available via the website and our Refund Hotline is refund status information. Internet filing is available for individual income extensions, sales and withholding tax. Our agency also accepts electronic payments via the web for sales, withholding, corporate, individual income tax, receivables and

approved payment plans. Another electronic payment option is electronic funds transfer (EFT). Through electronic funds transfer (EFT), taxpayers are provided additional payment options for withholding, corporate and a number of miscellaneous taxes. The miscellaneous tax payments include, but are not limited to, motor fuel, deed recording, brew pub and some utility payments. Through our online SCBOS project, business owners can register a new business and pay for their licenses and associated fees over the internet.

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 and stakeholder groups. Our industry specific sales and use tax seminars were developed to address a particular industry's concerns to better meet expectations.

Category 4 – Measurement, Analysis and Knowledge Management

4.1-2. The agency leadership has long reviewed all types of data to ascertain the progress made in our operations, processes and systems and in turn to use that information for decision making and innovation throughout the Agency. Our key or “dashboard” measures are discussed in 4.3. 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. Additionally, each strategic objective and action plan includes measures that are developed to ascertain progress on the objective. The following characteristics of the measures are identified:

Definition: Give operational definition of measure.

Data Source(s): Where does the data come from? (e.g., monthly operating system collections report) Who collects the data if it doesn't come from the operating system?

Why is it important? Why this measure? What does it tell us? How does it relate to an important outcome? What decisions are affected by this measure?

Factors Affecting Performance: What major variables will affect this measure? This could include both controllable and uncontrollable variables.

Analysis of Current Performance: This section is updated each reporting period with year-to-date analysis. Describe special cause situations, trends, anomalies, or process changes that affect performance.

4.3. Our agency dashboard performance measures align numerically to the agency strategic plan. These measures include: total collections, customer satisfaction survey results, refund cycle times (various taxes), cost per dollar collected, percent of returns received electronically (various taxes), deposit opportunity cost, total number of transactions processed, debt collected by setoff, voluntary resignations, equal employment opportunity (EEO) parity rate and others. These results are found in Category 7 of this report.

Most of the data related to performance measures is in our Data Warehouse. The DOR uses the business intelligence tool, Business Objects, to access data warehouse information, among other sources, and provide delivery of these measures to all users. This centralization of measurement and reporting greatly improves the timely availability of data, allowing users to assess actual performance to expected performance during the period, instead of after the period ends. This assessment enables users to adjust performance to better meet goals, if needed. This fiscal year,

an Executive View Quick Links page was created so that senior management would be able to have access to high-level performance measures all on one page.

Measures that are not yet available in Business Objects 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 the next five years and the individual held accountable for the data. The dashboard measurement data is located in the “shared” directory of our Local Area Network and is accessible to our employees. The Agency continues to use all measures in the senior leadership appraisal system as they are aligned with the strategic plan and the managers’ areas of responsibility.

4.4. We participate in some of the FTA’s benchmarking projects for our comparative data. The sharing of this information allows us to analyze our processes and benchmark with other states.

4.5. 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. Business Objects (discussed in 4.3) is a primary tool for giving reliable, accurate and timely feedback on performance, allowing better opportunities to improve during the process versus at the end of the period.

4.6. Through quarterly reviews of performance data and quarterly updating of the annual business plan objectives, the DOR reviews its business processes in an effort to increase productivity and improve quality of services to our customers. Through this same process, we are able to focus our resources on those action plans that are either not attaining their milestones or celebrate the achievement of those that remain on target. The data provided for these performance reviews allows us to target processes for improvement.

4.7. Leadership development and knowledge transfer are key parts of our strategic plan. The DOR has invested significant resources in cultivating our leaders of the future. We participate in the Associate Public Manager Program and the Certified Public Manager Program. On the agency level, the Leadership Program provides potential and current leaders an opportunity to learn leadership best practices.

We also use our electronic means to promote employees keeping abreast of the information and data that is compiled. Our “shared” directory and internal website, Dragnet, contain a wide variety of information on technical subjects and also includes a succession planning guide. These documents can be completed by employees to allow for the seamless transfer of knowledge.

Over the past several years, job analysis processes were completed with the majority of job families throughout the agency documenting their duties, tasks, knowledge, skills, equipment, supplies, future issues and concerns. The job analysis tool continues to be used as a primary tool in constructing new career paths and revising older ones. This analysis ensures that job competencies and knowledge transfer is a part of structured career progressions.

Category 5 – Workforce Focus

5.1. The Agency is organized in each division and section by natural work teams that have specific responsibilities and measurables that are monitored and reported as appropriate. These teams are empowered to cross team and division lines to communicate issues and to collaborate. Cross-divisional work teams are appointed to work on substantive improvements and implementation projects identified through the annual business planning process and tied 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. Teams are used to study processes. This study, along with the Process Improvement Program, 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 tie directly to our strategic plan. Also, many frontline employees have a Job Development Plan that ensures progression in knowledge and skills and encourages employees to develop their potential. See below:



The Agency has committed to providing our employees with state-of-the-art computer equipment by “bulldozing” every few years with leased equipment. We also provide up-to-date software to our employees to give them the tools they need to best serve our customers. Employees received new computer equipment and software in FY11.

5.2. Communication and knowledge sharing is fostered by the common focus of the strategic plan. Work flows across divisional structures within the DOR and management is trained to timely identify problems and make process improvements in conjunction with others since we do not function in silos. Best practices are identified both within the organization and also through work with other state revenue departments. Periodically, other states’ revenue departments call or visit the DOR to benchmark with us.

5.3. Key result four of our strategic plan is to ensure a capable, satisfied and diverse workforce. Our hiring practices fully support this goal. The DOR continues to use the NEOGOV system to recruit potential new hires. The DOR has a structured hiring process that involves training on the front end with new hiring officials. Current EEO goal attainment information is provided to each hiring manager with their file. Many of our jobs require a higher minimum training and education requirement than does the state job specifications due to the specialized nature and skills required for tax administration. We use a variety of strategies to retain the capable individuals that we hire. Figure 7.4.2 (p. 48) shows our turnover rate compared to the State turnover rate according to the state Office of Human Resources. Historically, we have had a lower turnover rate than the state average; however, it is slightly higher in FY11. Challenges in the process at any time could include our competitive position with regard to salary for capable professional positions, particularly in the information technology area.

5.4. Assessing workforce capabilities and capacity needs is handled in part by the measurement system we have in place. Managers and supervisors closely monitor production statistics, coach and counsel with employees, train or request training opportunities as appropriate and evaluate using the performance management system as described in 5.5 below. Job competencies are identified through job analysis and are the basis of all our career path or job development plans.

5.5. 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 executive management that ties to the timeline of the annual business plan and formalized succession planning.

5.6. The Agency has long held a leadership role in the State for our quality improvement and leadership training. For the last 20 years we have introduced our employees and many from other agencies to the quality tools and processes. Twenty-one work teams participated in the Process Improvement Program in FY11. Several of our leaders participate in the Certified Public Manager and Associate Public Manager programs to strengthen leadership attributes. Also DOR leaders attend various quality and leadership training.

The Agency addresses ethical issues such as bribery and disclosure awareness through formal classroom training, online learning and through written information, such as brochures and flyers. Every new employee, including leaders, tour the agency and learn the tax processing procedures during our new employee orientation, DOR 101. Through this tour, employees gain knowledge of the operating areas throughout the Agency.

5.7-8. We identify and address workforce developmental and training needs through periodic needs assessments. During the internal scan process of the strategic plan review, employee focus groups identified a need for more technical training. 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. See our Rev'n U Learning Portal below.

Expect More. Do More.

Rev'n U Learning Portal
 >>> the first place to look for eLearning

Whether you need to sign up for an upcoming class, launch an online self-study resource, or review your training activity, you can do it all from the comfort of your own computer. The **Rev'n U Learning Portal** lets you take charge of your learning at the S.C. Department of Revenue.

Look for upcoming training events
 The SCDOR training calendar is only a click away. You can view the scheduled events in a calendar or as a list. If you notice that a class you want to take isn't offered, you can request it through the Courses Catalog and be notified later.
[View upcoming events >>>](#)

Access self-study resources
 What would you like to learn? Expanding your knowledge just got easier with our online Self Study Center. Here you can access custom-made DOR eLearning modules as well as self-study documents available to employees.
[Access the Self-Study Center >>>](#)

Review your DOR training history
 When was that class? Now you don't have to call and request a transcript of your training history, you can look it up yourself. You can view the history for Instructor-Led events you've taken and see your upcoming activity, too.
[Review your training activity >>>](#)

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When traditional classroom training is utilized, it is augmented with accelerated learning techniques. We have technical training initiatives and quality and leadership initiatives. A sample of classroom training is listed below. Courses have been developed that address job skills, performance excellence, diversity, management and leadership training. Below is a sampling of the classroom training offered.

Classes Scheduled (All)

For: All Courses

Go Course Title --- Enter text at left and click the GO button to search

Show As Calendar: All Events | By Category

Showing---Title contains= % -Site= % -Category= % -Event Type= %

| Date | Time | Title | Site | Category | Event Type | Location | Availability |
|------------|---------|--|---------|-----------------------|-----------------------|-----------|--------------|
| 8/9/2011 | 09:00AM | Intermediate Business Objects-SCITS EI Universe | SYS-146 | MarketPointe | Technology Center | Classroom | Available |
| 8/11/2011 | 09:30AM | ARMS - Basic | SYS-127 | MarketPointe | Technology Center | Classroom | Available |
| 8/16/2011 | 10:00AM | Advanced Business Objects | SYS-146 | MarketPointe | Technology Center | Classroom | Available |
| 8/18/2011 | 09:30AM | SCITS TA - Taxpayer Accounting Qtrly Class | SYS-140 | Columbia Mill Buildin | Learning Center | Classroom | Available |
| 9/1/2011 | 09:00AM | Advanced Sales Tax Seminar for Manufacturers | TAX-263 | Courtyard Marriott- C | | Classroom | Available |
| 9/13/2011 | 02:00PM | Sales Tax Forms Workshop | TAX-325 | Columbia Mill Buildin | 4th Floor Training Rc | Classroom | Available |
| 9/13/2011 | 09:00AM | Sales Tax Forms Workshop | TAX-325 | Columbia Mill Buildin | 4th Floor Training Rc | Classroom | Available |
| 9/22/2011 | 09:00AM | Withholding Tax Workshop | TAX-264 | Columbia Mill Buildin | 4th Floor Training Rc | Classroom | Available |
| 9/27/2011 | 09:00AM | Beginner Business Objects | SYS-146 | MarketPointe | Technology Center | Classroom | Available |
| 10/4/2011 | 09:00AM | Sales & Use Tax Seminar for Agriculture Industry | TAX-263 | Columbia | SpringHill Suites | Classroom | Available |
| 10/6/2011 | 09:30AM | ARMS - Intermediate | SYS-127 | MarketPointe | Technology Center | Classroom | Available |
| 10/11/2011 | 09:30AM | SCITS TA - Taxpayer Accounting Qtrly Class | SYS-140 | Columbia Mill Buildin | Learning Center | Classroom | Available |
| 10/12/2011 | 09:00AM | Intermediate Business Objects-SCITS EI Universe | SYS-146 | MarketPointe | Technology Center | Classroom | Available |
| 10/12/2011 | 09:00AM | Sales Tax Forms Workshop | TAX-325 | Columbia Mill Buildin | 4th Floor Training Rc | Classroom | Available |

Select a Class Session in the list above to see actions for it here

Additionally, all of the methods and materials listed in 3.4-3.5 to educate our customers are also available and used to train our employees.

We evaluate the effectiveness of training and encourage the use of the new knowledge and skills primarily through our formal Job Development Plans for much of our frontline workforce that 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 75% tuition reimbursement for up to 12 semester hours per year for our eligible 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. We sponsor an on-site Toastmasters group to allow employees to acquire and polish their public speaking skills.

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, supervisory training, process improvement and leadership training, Certified Public Manager and the Associate Public Manager programs.

When new employees are hired, we introduce them to the Agency through our orientation course, DOR 101. This training day includes a tour of the processing facility at Market Pointe, and casual “meet and greet” with the Director, Executive Deputy Director and the senior management team. Other topics covered in DOR 101 include: functions of each division, the history of the Agency, an overview of the taxes administered by the DOR, the Strategic Plan, the South Carolina taxing structure, and the DOR tax computer systems. The skills and knowledge gained through training are used on the job.

5.9. Employee training is a vital part of ensuring we achieve DOR goals and objectives and are able to execute the action plans. The training outlined above is evidence of the DOR’s commitment to giving employees the tools they need to do their jobs. The performance measurement system indicates that our training strategies are successful in producing results.

5.10. Evaluating effectiveness of workforce and leader training is a structured part of each formalized course. Within several of the courses, including the state Certified Public Manager Program, participants do a project to reinforce the application of the skills and knowledge learned. The performance management system includes a planning stage where individual training plans for the year are discussed. Effective application of the skills and knowledge are assessed on the job and is included in the final evaluation.

5.11. The methods and tools of implementing the components of Category 5 are critical components of influencing individual motivation. This implementation includes both strategies that apply to job tasks and to workforce benefits or flexibilities that help our staff balance their personal and professional lives. More specifics about these benefits and flexibilities are discussed in 5.12-5.14. Leadership and communication are both important components of motivation, as is giving the employee specific accountability for job tasks and recognition of their performance.

5.12. 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, weight loss program, healthy eating program, a walking club, an exercise group and the DOR golfers. A new DOR employee newsletter (DORPost) brings information to all employees monthly through email. Tuition reimbursement and variable work week or work hour options assist employees in balancing their personal lives and professional development needs. The Employee Assistance Program is available to all employees. Formal appreciation events included an employee appreciation lunch, lunch with the Director program and our Director's Shining STAR reserved parking space. All continue to be popular recognition options. Many work groups organize their own recognition celebrations on an ongoing basis.

The DOR's turnover rate is usually lower than other state agencies according to data provided by the Office of Human Resources at the Budget and Control Board. We generally have low turnover (Figures 7.4.1-7.4.2, pp. 47-48) and grievances are unusual. This fact was verified through the results of our employee focus groups' answer to the question of "If your son or daughter (or someone close to you) was thinking about coming to work for the Department of Revenue, what would you tell them?" According to the Governmental Research and Service group of the Institute for Public Service and Policy Research at the University of South Carolina, the majority of employee views present a balanced picture of life at the Department of Revenue.

5.13. For the majority of DOR jobs, a formalized Job Development Plan is in place that is built on job competencies. Each plan identifies those competencies and progression is dependent on the employee successfully and independently demonstrating these competencies over time in their work product. With dedicated effort over a period of years, these employees can reach the top levels of the plan. As to succession planning, job analysis is also used to identify key duties, skills and priorities. When we know in advance that key staff is leaving the Agency, we occasionally hire in advance to ensure a smooth transition of these job duties. The Director uses a Business Objects report to monitor workforce planning.

5.14. Initiatives in the area of maintaining a safe, secure and healthy work environment 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 also have blood pressure machines and defibrillators in the office in case of emergencies. We developed a Business Continuity Plan that is updated periodically to address workplace preparedness for emergencies and disasters. The DOR works with Facilities Management to ensure a safe work environment and to conserve energy in its main buildings and district offices.

Category 6 – Process Management

6.1-6.6. The Agency is aligned to its identified core processes and competencies. All products and services, which are either in place or to be designed, link to one of the core processes. The core processes were identified through the Strengths, Weaknesses, Opportunities and Threats (SWOT) portion of the strategic planning cycle. Below is a table identifying these processes (Figure 6.1.1, pp. 37-38). Note: Support processes are included in the Administration category.

S.C. Department of Revenue Accountability Report 2010 - 2011

| Core Processes | Sub-Processes | Stakeholders |
|--|---|--|
| Revenue Processing & Allocation | Forms Design and Management Mail Processing Records Electronic funds transfer/electronic data interchange 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 \$9.5 million road/gas fund Accommodations Tax Index/Ratio Lists of corporate officers | Elected Officials Other state agencies Local Governments Non-Business Taxpayers Business Taxpayers Practitioners Citizens Comptroller General |
| Registration, Licensing and Exemptions | Registration Licensing Code Enforcement Determine Exemptions Oversight Local Government Assistance Question Answering | Elected Officials Other agencies Local Governments Business Taxpayers Practitioners Citizens |
| Valuations | Manufacturing Property Utilities, Carlines Business Personal Property Fee In Lieu of Taxes (FILOT) Motor Vehicle Guides Motor Carrier | Local Governments Department of Public Safety Department of Transportation |
| Compliance | Audits and Collections Data Reconciliations Code Enforcement Process Regulatory Violations Criminal Investigations/Prosecutions Assist Other Agencies/Governments | Elected Officials Other state agencies Local 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 Publications New Legislation Guide | Elected Officials Local Governments DOR Staff Non-Business Taxpayers Business Taxpayers Practitioners Citizens |

S.C. Department of Revenue Accountability Report 2010 - 2011

| | | |
|--------------------|--|--|
| | Annual Report Legislative Affairs and Press Releases Forms Policy Documents Assist Other Agencies Local Government Liaison Provide Statistics/Data Education and Training | |
| Dispute Resolution | Mediation Negotiations Error and Assessment Notices Error & Problem Resolution Taxpayer Advocate Appeals Administrative law court and other court cases | Elected Officials Local Governments Non-Business Taxpayers Business Taxpayers Practitioners |
| Administration | Human Resource Planning and Development Information Technology Facility Management Financial Management Internal Audit | Elected Officials Local Governments Non-Business Taxpayers Business Taxpayers Practitioners DOR Staff |

Figure 6.1.1

The Agency utilizes the process where 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, pp. 39, 40) requires us to look at how we can incorporate new technology, along with changing customer and mission related requirements and it 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 of new processes. It shows how we ensure customer/stakeholder involvement.

The DOR continues to look for opportunities to outsource business functions to reduce costs. The DOR contracts with private collection agencies to resolve in-state, out-of-state and difficult or aged accounts. We also utilize private sector companies in the areas of technology, such as, our Data Warehouse, SCITS and the imaging and capture of W-2 information.

Customer Service Design and Delivery 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

© Ken Miller, The Change Agent’s Guide to Radical Improvement, 2002. www.changeagents.info

Fig. 6.1.2

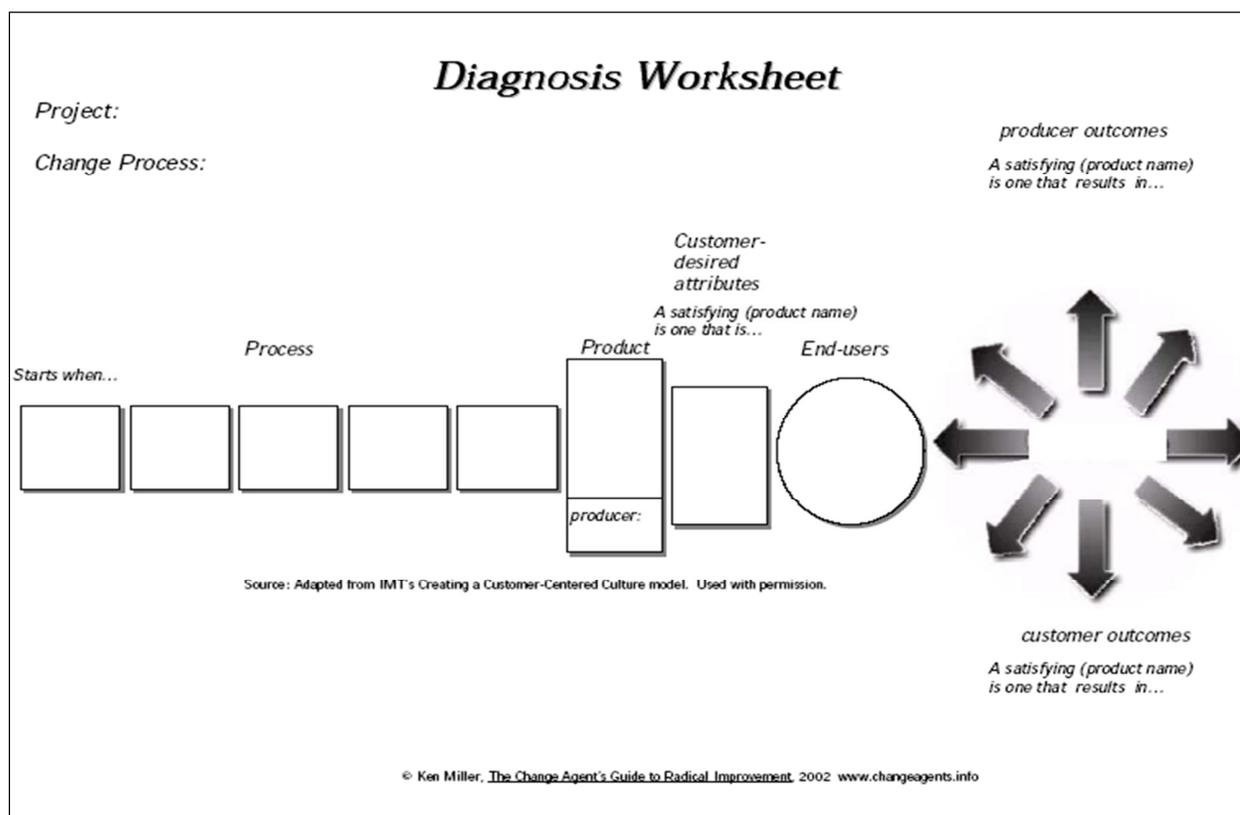


Figure 6.1.3

6.7. As a part of identifying customer and stakeholder needs, identifying resource needs and looking at the environment scan of strengths, weaknesses, opportunities and threats, we determine resource needs and prioritize resources to fit within our projected budget and financial obligations. Our budget is categorized by the major activities of the agency and resources are allocated using an activity based costing process. We develop projected budgets forecasting expenditures for the next five years to allow the Agency to monitor long term projects and anticipate the impact of budgetary changes. Many of our long-term projects include the use of technology or major equipment. The DOR has maintenance agreements in place for all of these primary physical assets. The DOR uses a long-range plan for improving and or the replacing of aging major equipment.

While the majority of our operations are state funded, the General Assembly has secured provisos to be allowed reimbursement from revenue streams generated from new projects to supplement funds available from state appropriations.

Category 7 – Results

7.1 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 7.1.1 shows our collections over prior fiscal years. The DOR's total collections increased 6.8% from FY10.

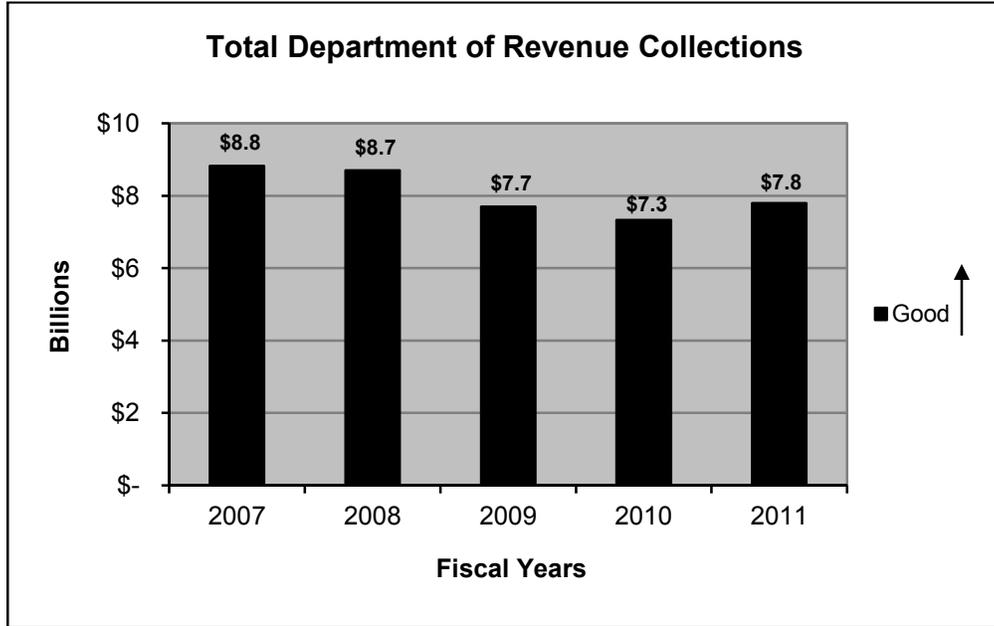


Fig. 7.1.1

The Federation of Tax Administrators ranked South Carolina tied at sixth in the nation for electronic filing of individual income tax returns. South Carolina's percentage increased 5% from FY10. Promoting electronic filing has been a significant cost and time saver for the Department, the State and the taxpayer.

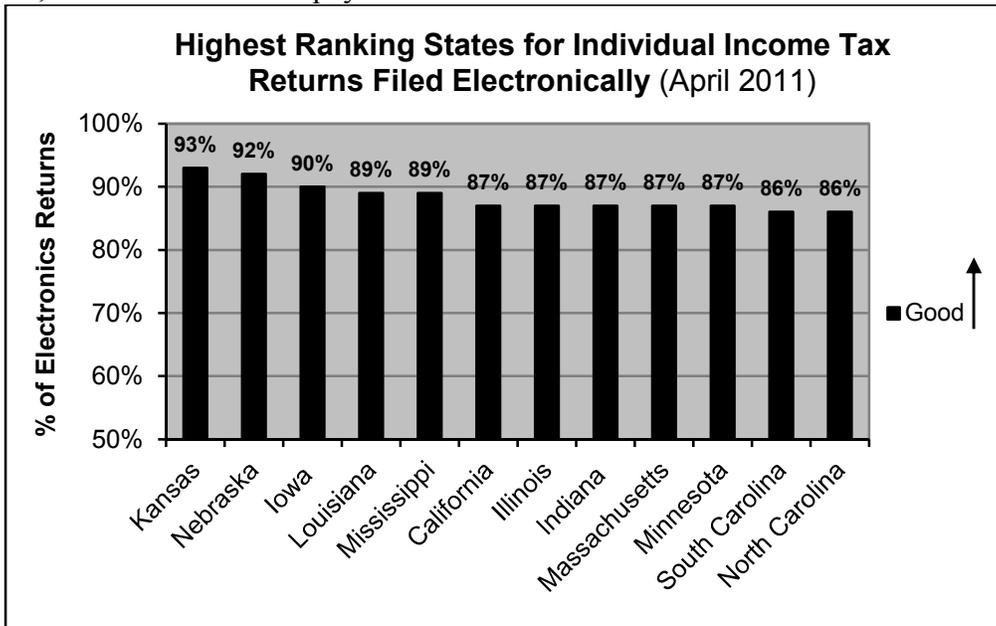


Fig. 7.1.2

Figures 7.1.3 – 7.1.6 show the total number of returns we have processed in the four top tax types.

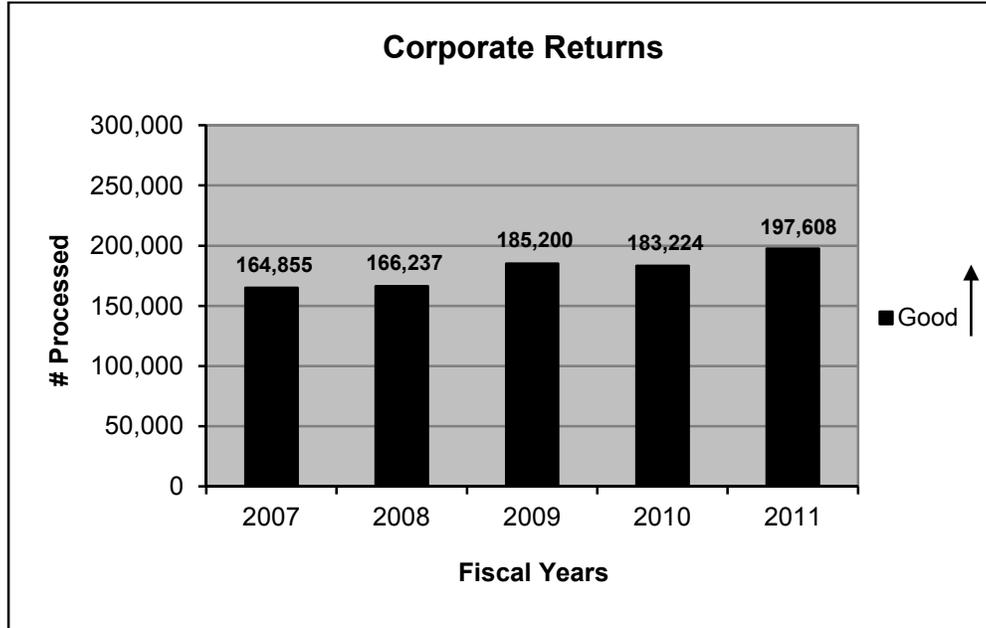


Fig. 7.1.3

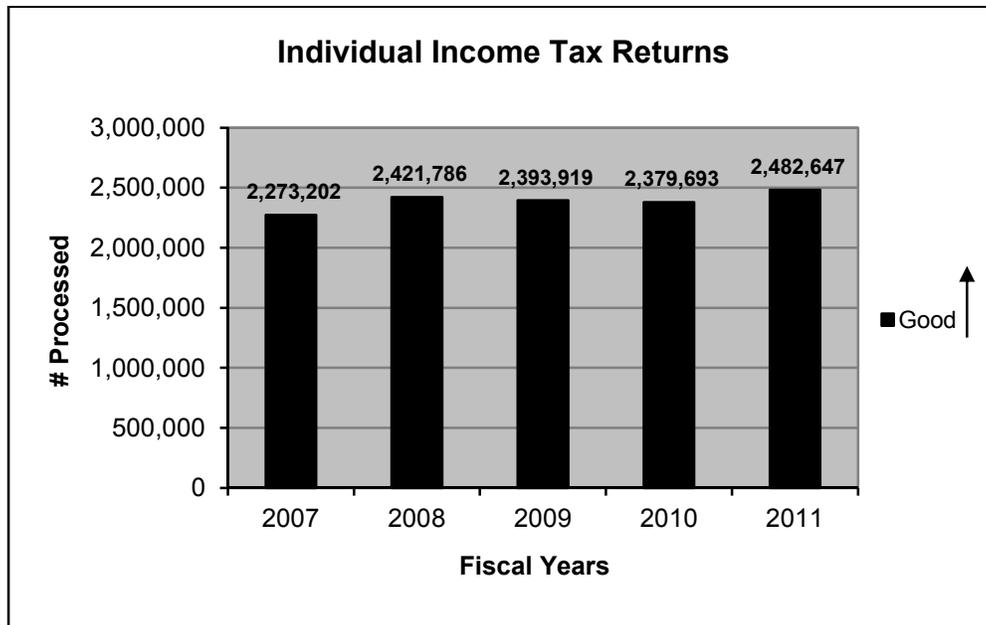


Fig. 7.1.4

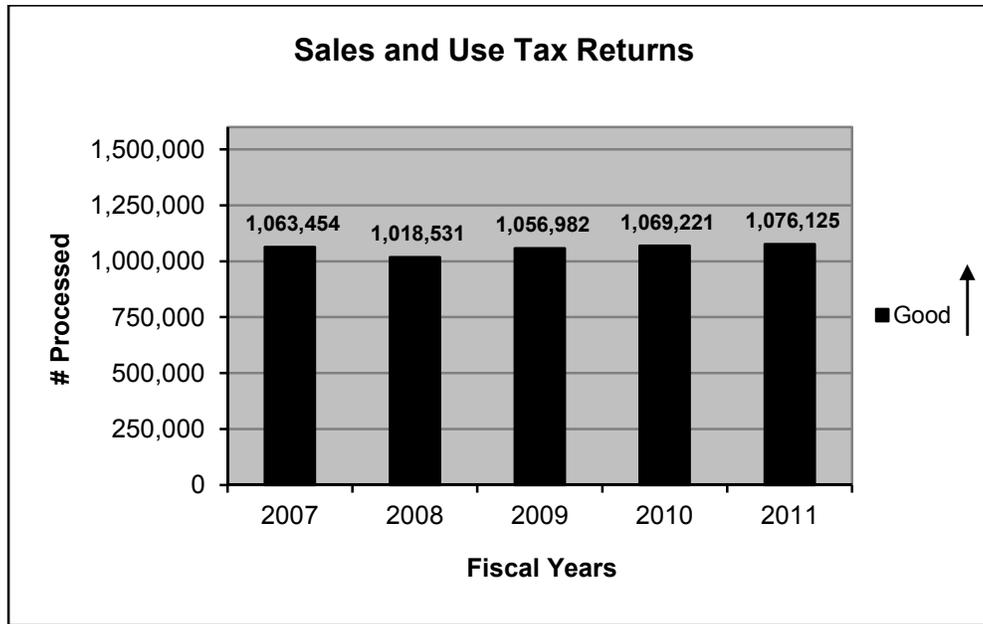


Fig. 7.1.5

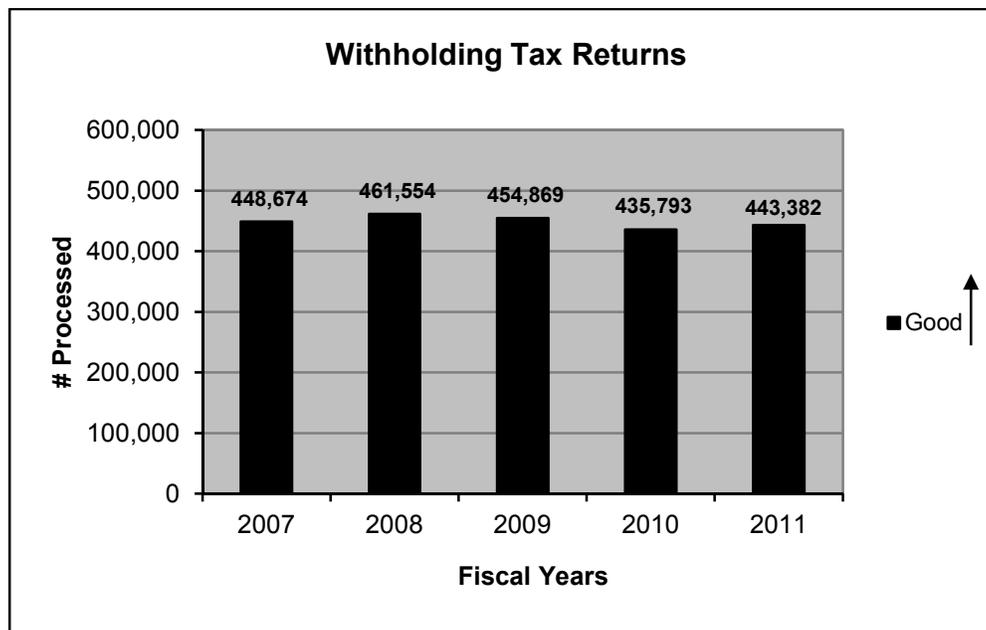


Fig. 7.1.6

Figure 7.1.7 shows an increase in the total number of transactions processed by the Agency for FY11.

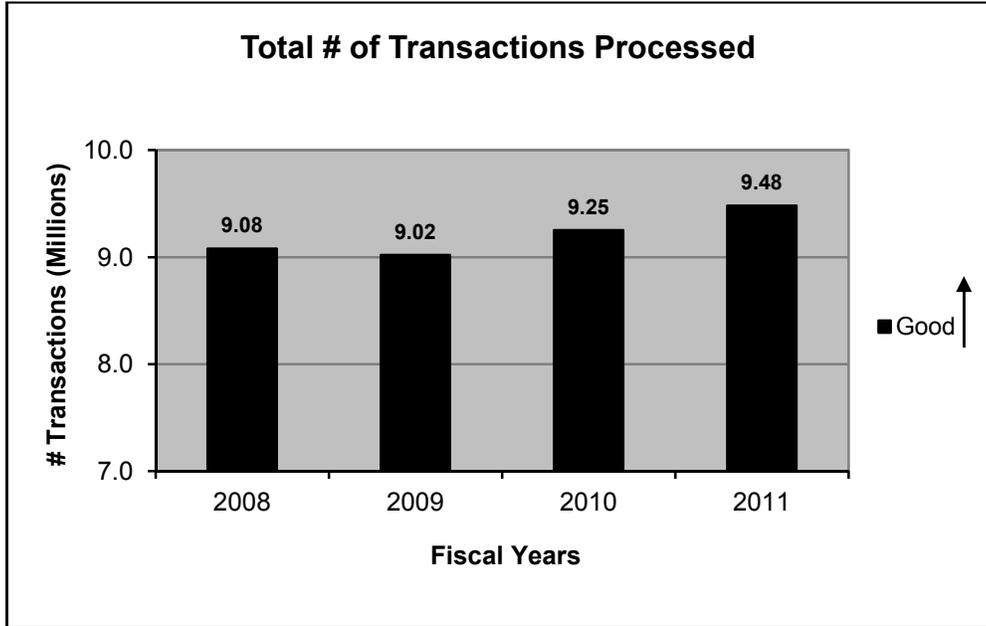


Fig. 7.1.7

7.2 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. Seventy-five percent of survey respondents indicated that they were either very satisfied or somewhat satisfied with the service they received from the DOR. This reflects a 2% increase from FY10.

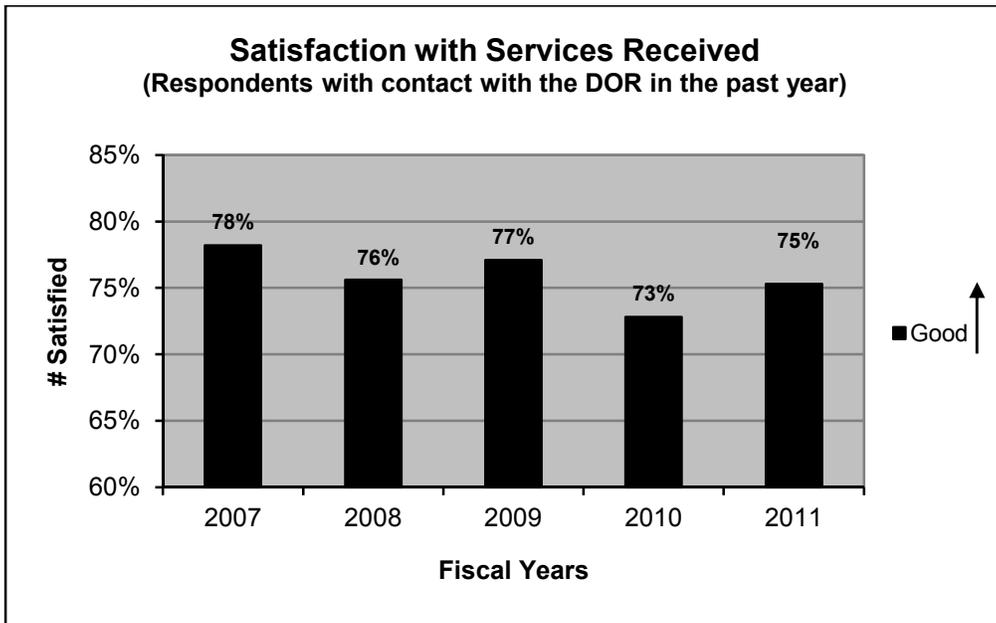


Fig. 7.2.1

In our electronic processing, Figure 7.2.2, we continue to issue refunds in a timely fashion. For tax year 2010, 99.4% of electronically filed refunds were issued in less than 10 days.

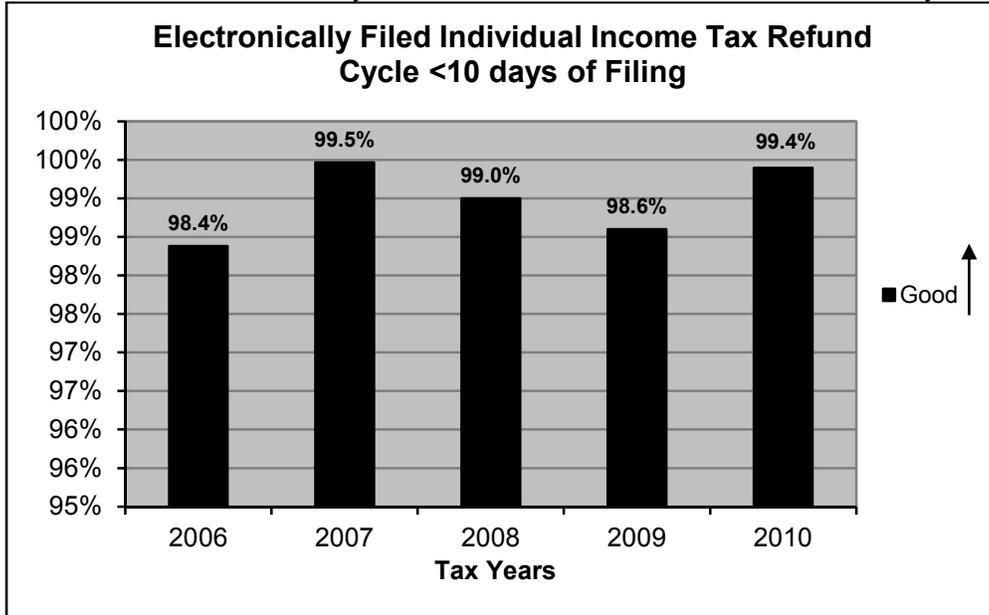


Fig.7.2.2

The USC Customer Service survey, Figure 7.2.3, showed there was an astonishing 96.3% satisfaction rate with the time it took to receive refunds.

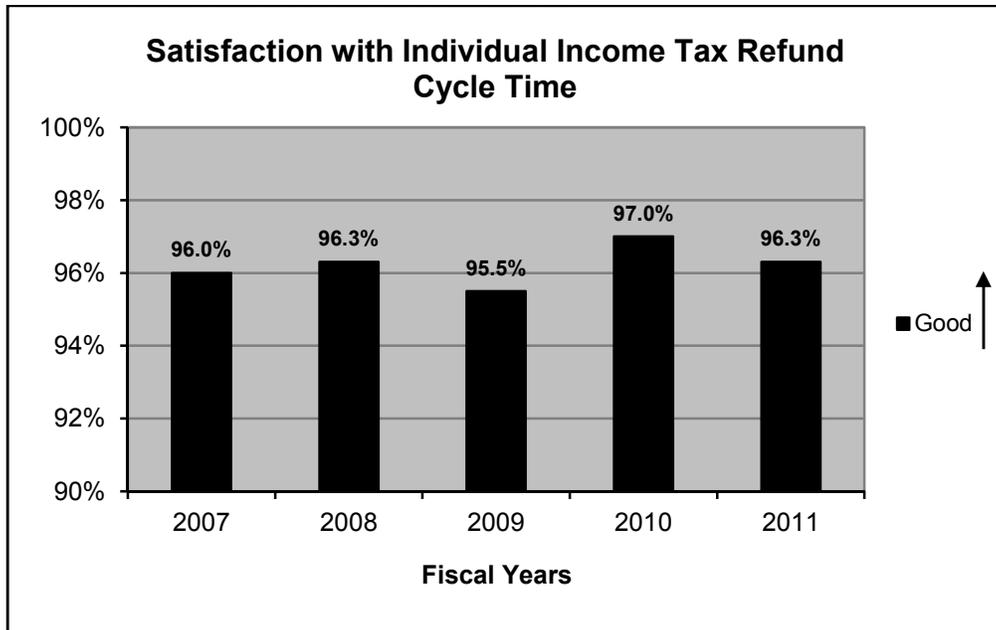


Fig. 7.2.3

7.3 Financial Performance Indicators: Figure 7.3.1 shows our cost for collecting \$1.00 of tax was \$0.00781. This measure shows the effectiveness of our collection approaches.

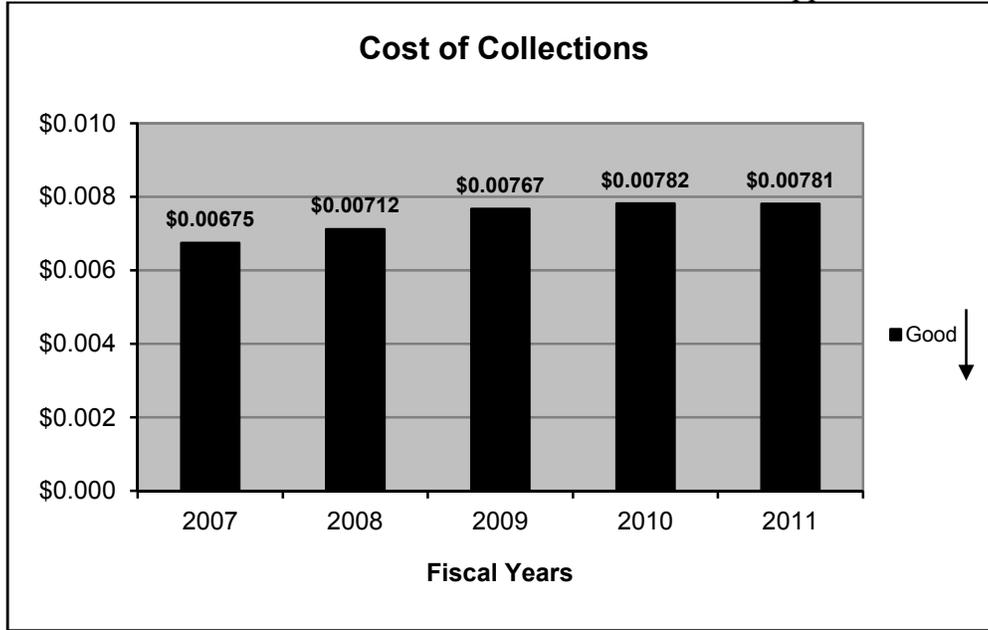


Fig. 7.3.1

Opportunity cost data shows our efficiency in processing checks and returns and getting state funds deposited. Figure 7.3.2 is a five-year comparison of the data. This information fluctuates with the changing interest rate.

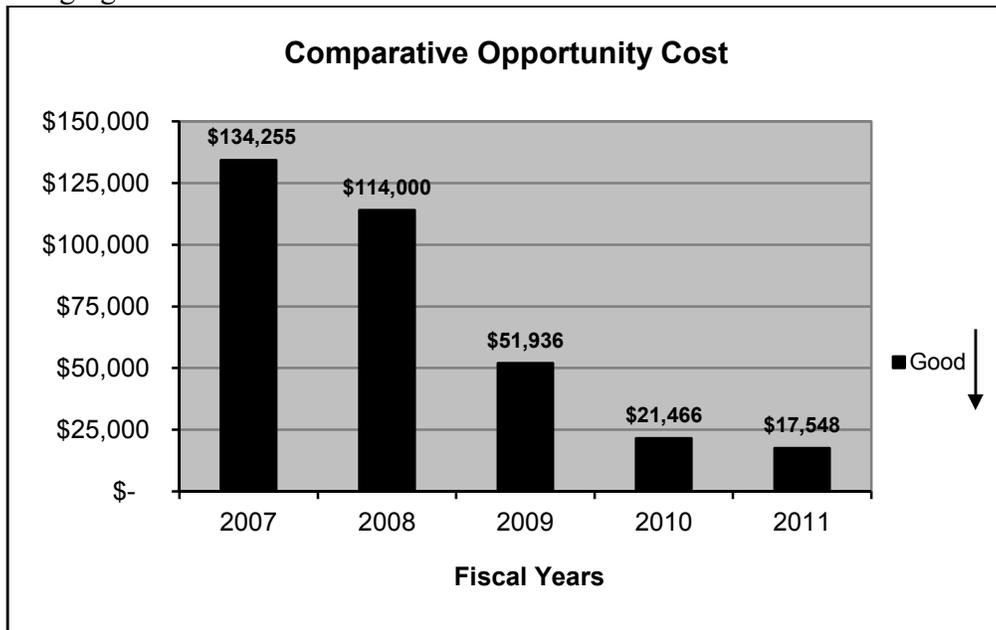


Fig. 7.3.2

Figure 7.3.3 indicates 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 and process transactions quicker, but also to do so virtually error free.

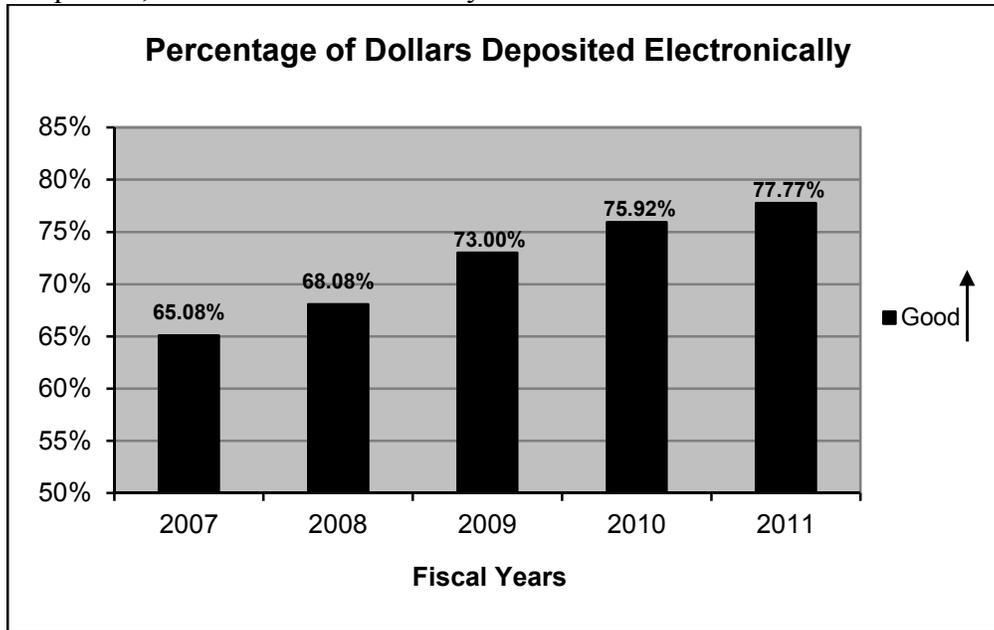


Fig 7.3.3

7.4 Workforce Results Among the workforce measures monitored, we track the number of employees voluntarily resigning. The number of resignations excludes retirees (Figure 7.4.1). In FY11, voluntarily resignations increased. Historically, however, the DOR has had low turnover. We are examining the causes of the higher turnover rate in FY11. While resignations are affected by the economy, job market, employee relocation, family needs and other factors, we believe that lower turnover is one indicator of employee satisfaction.

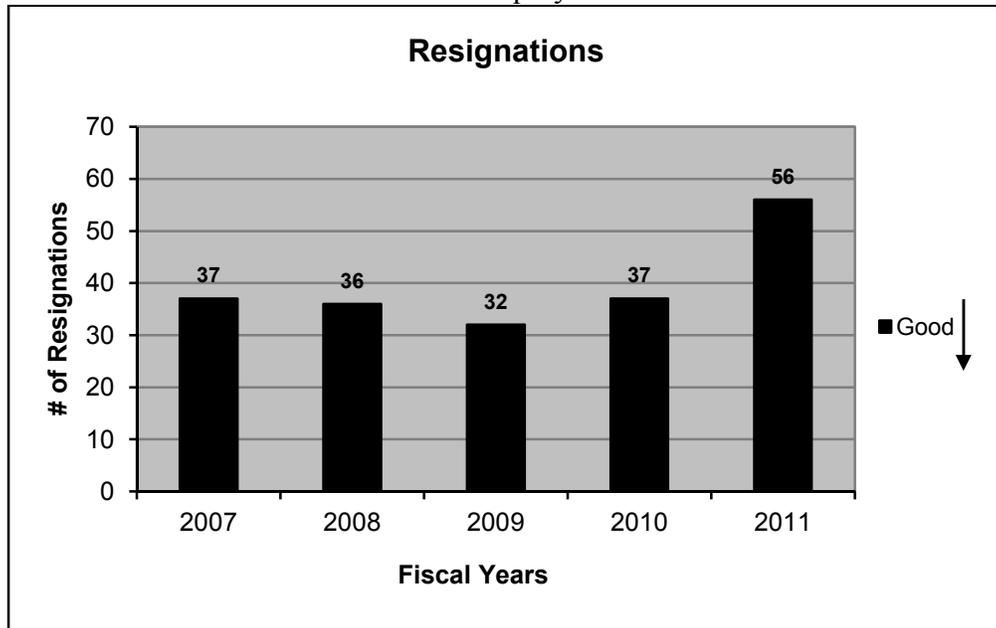


Fig. 7.4.1

Figure 7.4.2 is a comparative look at the DOR’s turnover rate to the average state turnover rate. In FY11, the DOR’s turnover rate was 12.65%, compared to the state average of 12.16%.

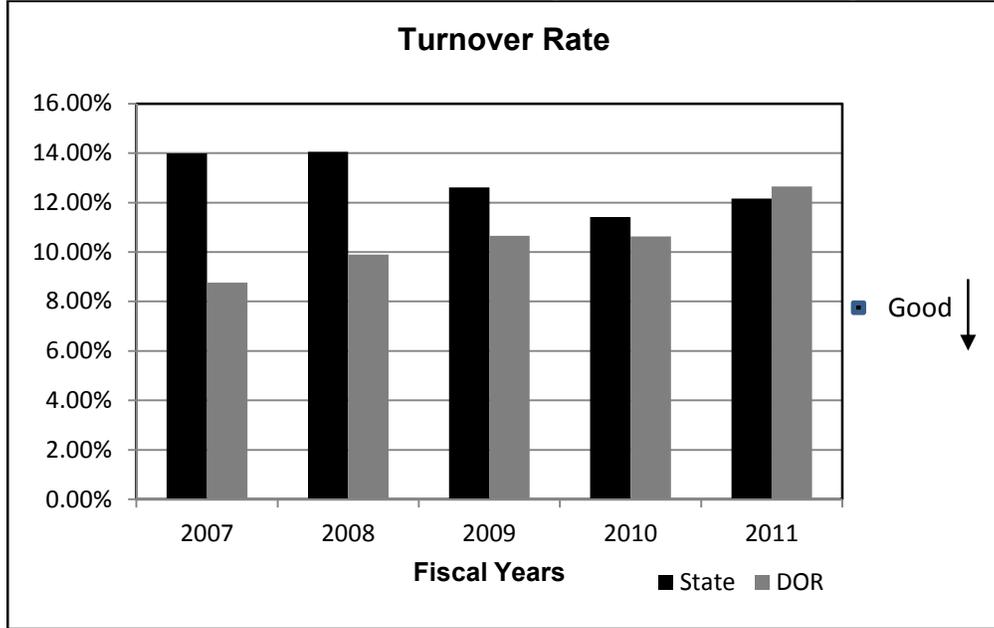


Fig. 7.4.2

Our Equal Employment Opportunity (EEO) data (Figure 7.4.3) shows the Agency’s percent of goal attainment in promoting a diverse workforce.

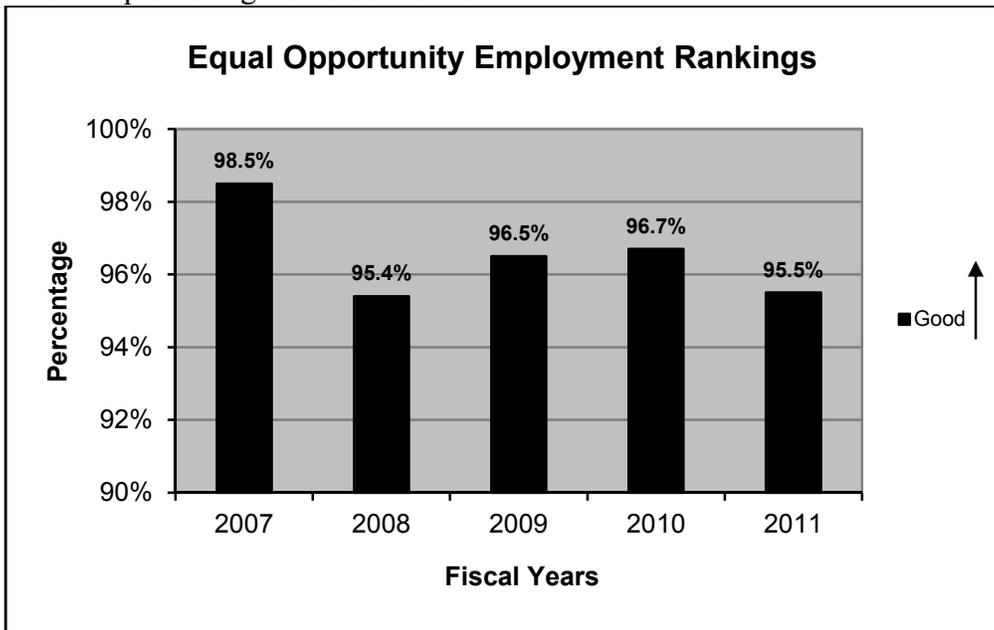


Fig. 7.4.3

7.5 Organizational Effectiveness/Operational Efficiency. Promoting electronic filing saves money for the DOR, the State and the taxpayer. In FY11, Sales CDs and electronic filing methods for both sales and withholding tax were promoted instead of mailing paper returns. The electronic filing system for sales tax (ESales) saw a 50% or more increase in filings over the same time in calendar year 2010 after the Sales CDs were distributed in January 2011.

| Month: | 2010: | 2011: | Percent Increased: |
|----------|--------|--------|--------------------|
| January | 26,400 | 34,466 | 30.55% |
| February | 22,376 | 33,923 | 51.60% |
| March | 23,509 | 35,293 | 50.13% |
| April | 26,540 | 40,529 | 52.71% |
| May | 22,493 | 34,947 | 55.37% |
| June | 23,718 | 36,297 | 53.04% |

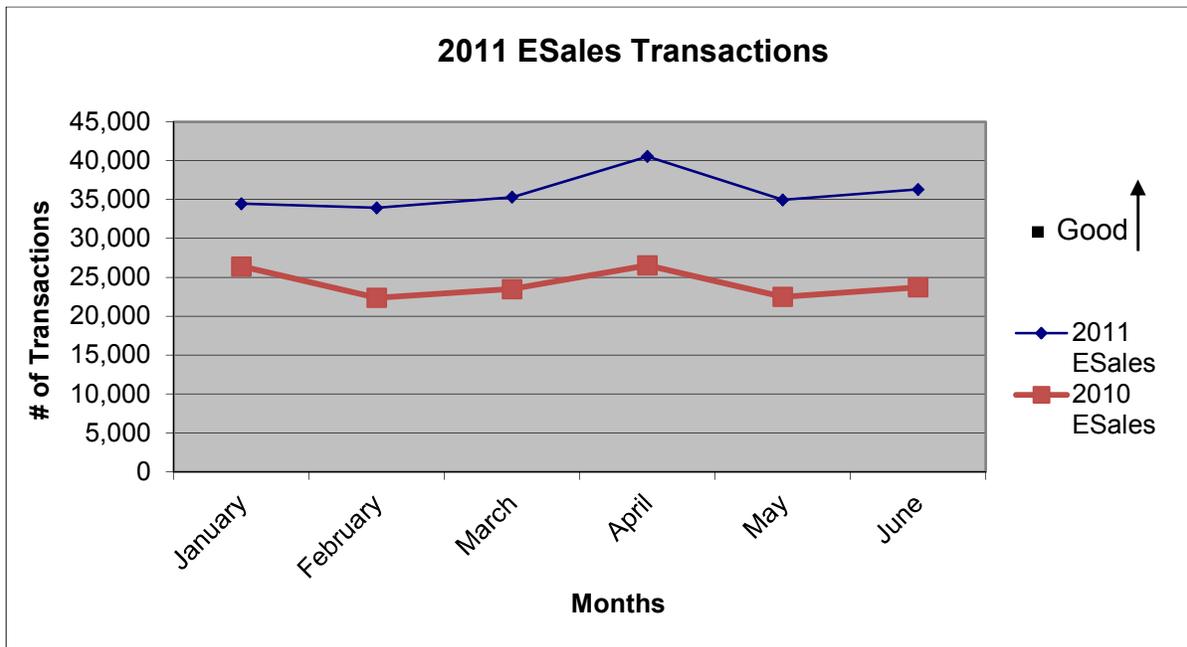


Fig. 7.5.1

The electronic filing system for withholding tax (EWithholding) saw increases of over 100% in the last three months of FY11.

| Month: | 2010: | 2011: | Percent Increased: |
|----------|-------|--------|--------------------|
| January | 6,720 | 10,091 | 50.16% |
| February | 2,708 | 4,185 | 54.54% |
| March | 1,094 | 2,072 | 89.40% |
| April | 9,282 | 22,236 | 139.56% |
| May | 1,286 | 5,827 | 353.11% |
| June | 660 | 1,696 | 156.97% |

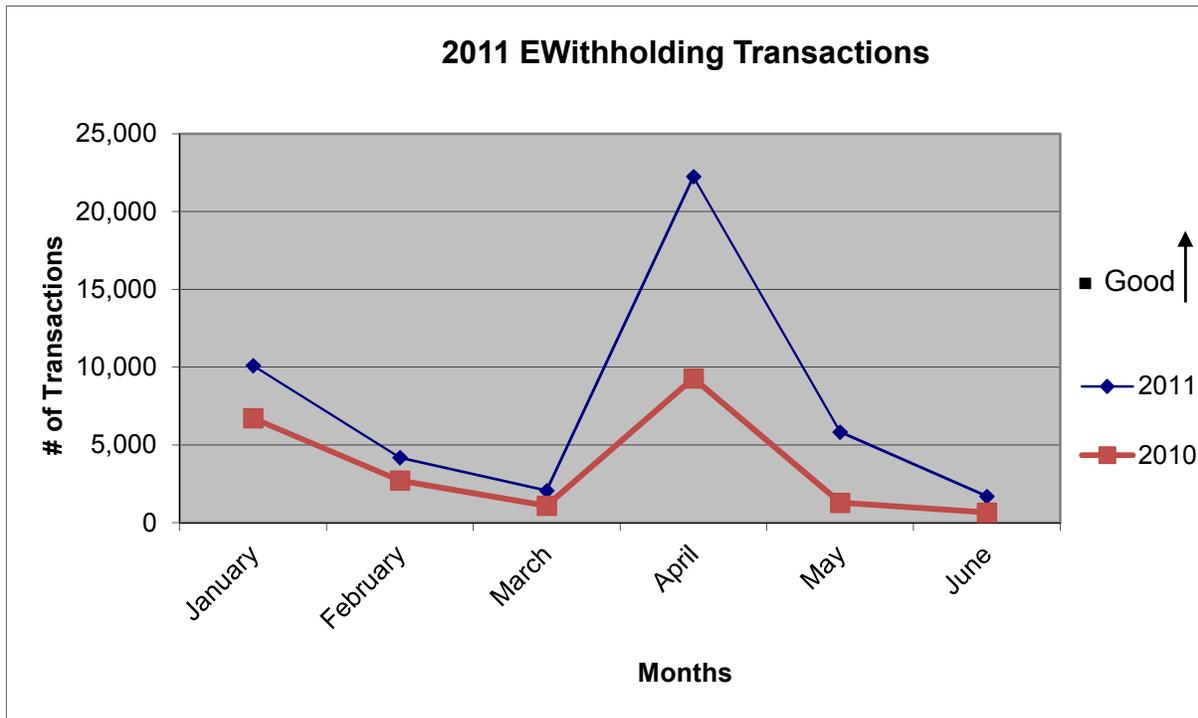


Fig. 7.5.2

7.6 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.

South Carolina Business One Stop (SCBOS) has been available online to South Carolina businesses since May of 2005. SCBOS is a “one-stop” gateway for business and professional registration and licensing, for services offered by federal, state and local governments within South Carolina.

Figure 7.6.1 shows the number of checkouts (the number of one or more filings being “checked out” at once during a transaction) each year in SCBOS. With the capability of filing new returns, SCBOS continues to process an increasing amount of checkouts. Businesses are also finding it convenient to combine different filing types within one checkout.

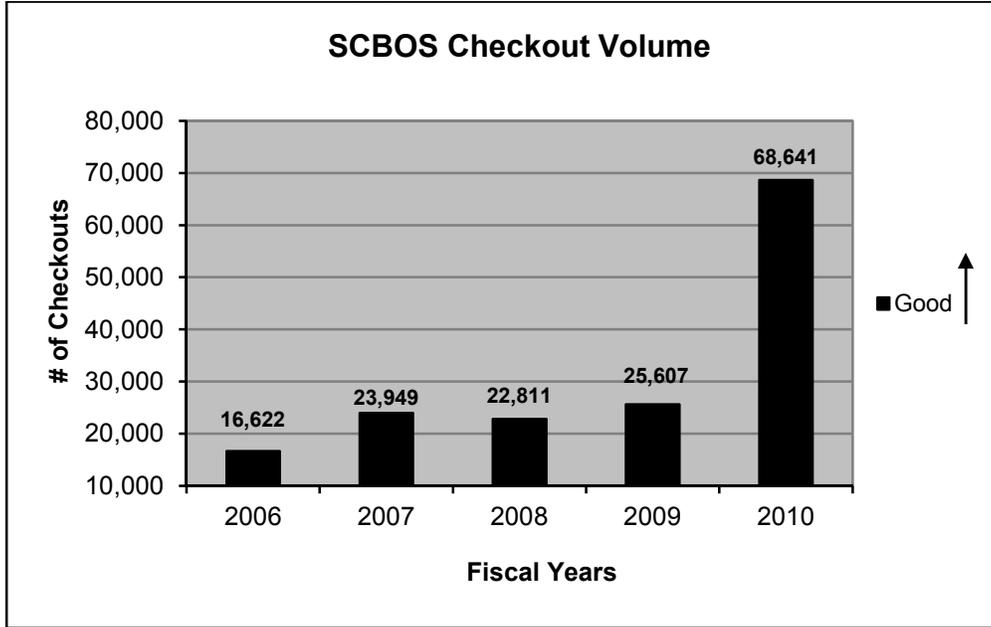


Fig. 7.6.1

The total number of new businesses approved is shown in Figure 7.6.2. In FY11, 11,030 new businesses were approved in SCBOS.

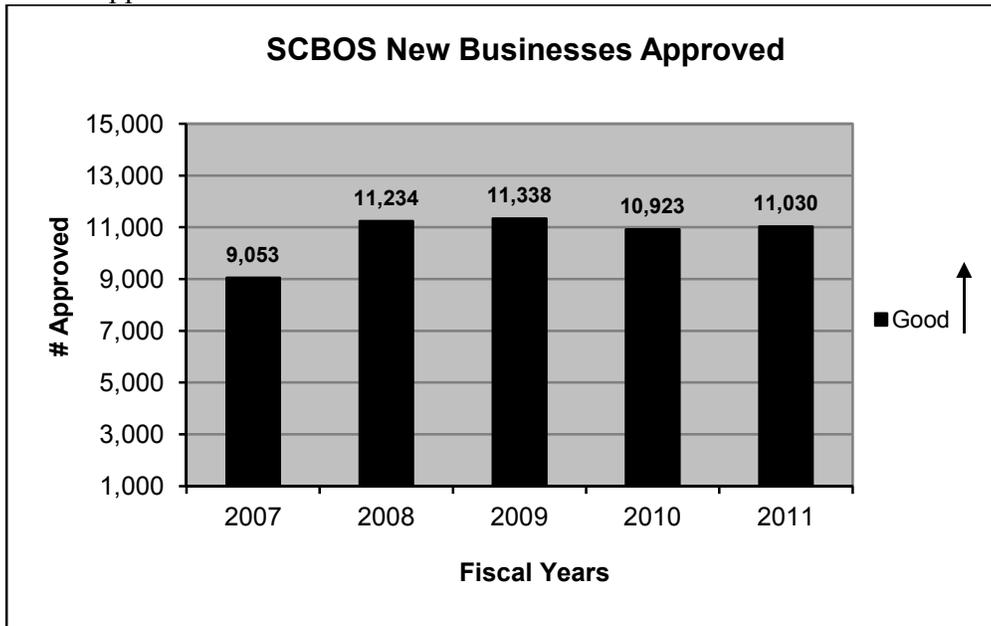


Fig. 7.6.2

Figure 7.6.3 illustrates the payments received through SCBOS. In FY11, there was \$26,795,672 in licenses, permits and registrations (LPR) payments. This amount is more than all previous years combined. The increase was due to the Department of Employment and Workforce Employer Unemployment Insurance Contribution Report being added to SCBOS, which is a function that requires payment.

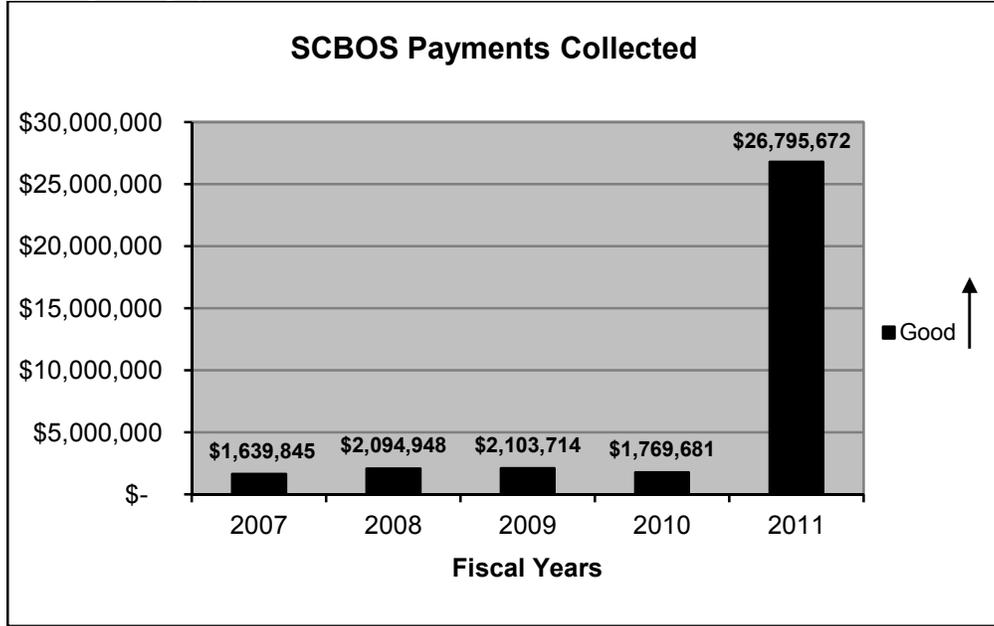


Fig. 7.6.3

We continue to support the community through our GEAR (Government Enterprise Accounts Receivable) and SCBOS programs. In FY11, DOR saw an 11% increase in GEAR collections over FY10.

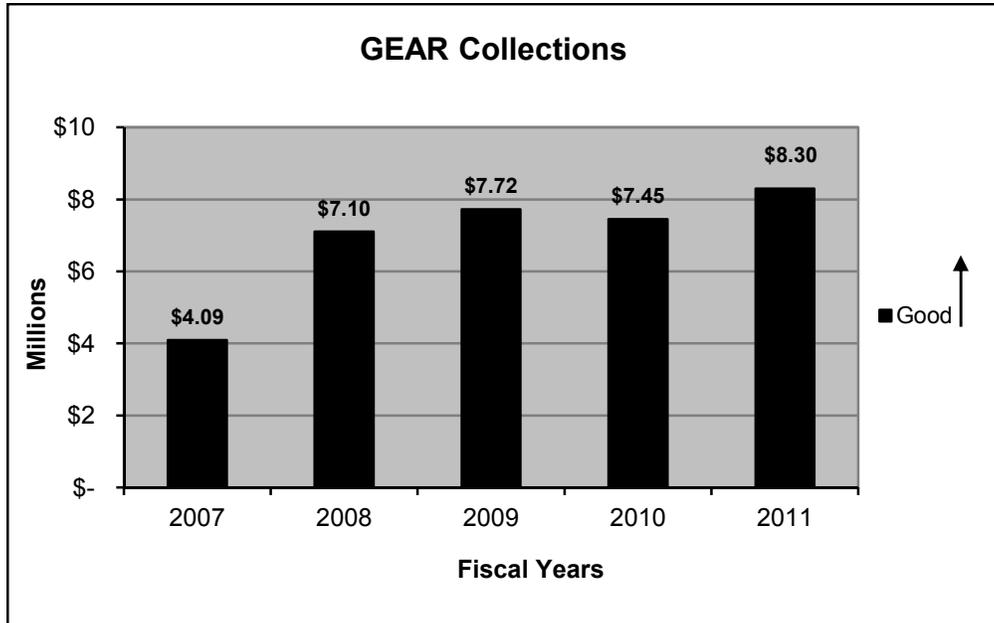


Fig. 7.6.4

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. We match refunds against those lists to capture the refund and then send the amount owed to the appropriate institution.

Figure 7.6.5 shows that there is a steady increase in the amount collected.

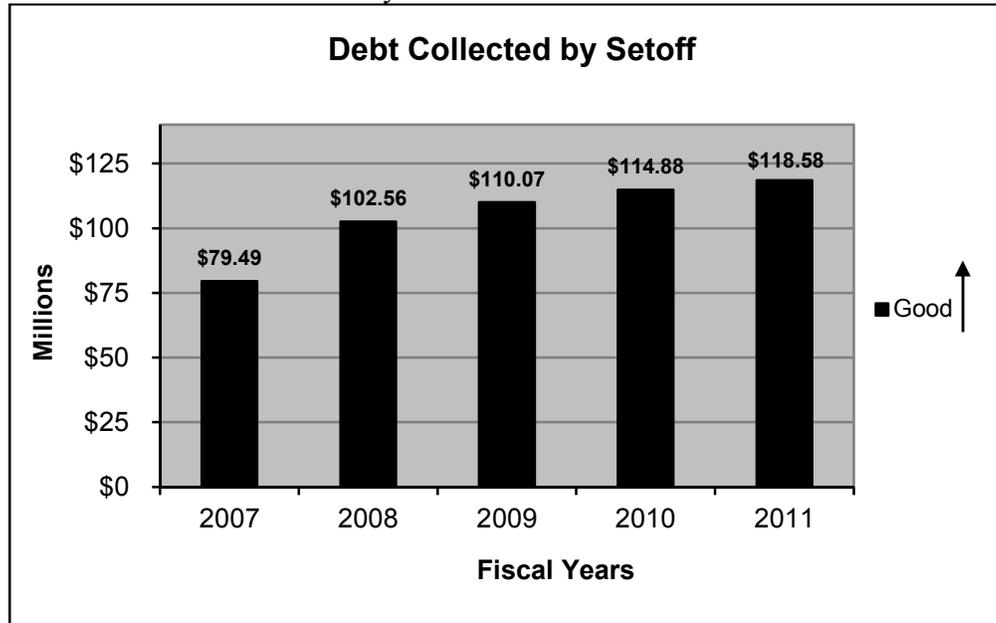


Fig. 7.6.5