



Compliance Data Warehouse

New Mexico

Taxation and Revenue Department

FTA Annual Meeting – June 2007

Agenda

- Data Warehouse (DW) Overview
- DW Organization and Meetings
- Benefits of Dedicated IT
- Data Sources
- Project Schedule
- Tape Match
- Audit Selection
- Lessons Learned

Project History

- RFP issued in late 2003
 - Awarded to Revenue Solutions, Inc. (RSI)
 - Initial contract executed in May 2004
 - Later added Case & Correspondence modules
- First project in production in August 2005
- DW IT team created in late 2005
- Seven projects in production to date



Data Warehouse Overview

- Identify and collect unpaid taxes owed to NM
- Two major thrusts
 - 1) Implement tape match programs
 - 2) Identify potential audit candidates
- DW has software to match data from many sources to find discrepancies, calculate taxes, generate cases, create and track correspondence to taxpayers.
- Help streamline processes, produce higher quality results, and identify non-compliant taxpayers



Current & Planned Status

Description	Current	Planned
Completed or Active Projects	7	25+ within 2 yrs
IT Staff	5 (1 Mgr, 2 DBA's, 2 Appl Dev)	3 add'l in FY08
Storage Space on SAN (Production)	~6 TB	Includes capacity for 2 yrs of growth
Database	Oracle 9i	Oracle 10G
DW Software	RSI DiscoverTax, Embarcadero, Code1	Evaluating additional audit software
Environments	Production, Development, Test	Expansion of processing capability through additional/faster servers

Project Meetings

- **Executive Steering Committee**
 - Project prioritization and scheduling
 - Critical decision-making
 - Meets monthly or as needed
- **Data Warehouse Team Meetings**
 - Discuss status, activities, issues, projects
 - All key players, IT and ACD; Meets every other week
- **Audit Selection Committee**
 - Audit Selection subject-matter-experts meets approx. weekly
- **Working meetings**
 - Auditors/Tax examiners (SME's) and IT staff, as needed

Benefits of Dedicated IT

- Define & develop projects faster
- Co-location with end-users
- Improved communication channels
- More efficient
- Better knowledge of business rules
- Team building = trust
- Department ownership



Data Sources

- Current
 - Internal Revenue Service (IRS)
 - CP2000
 - IMF/IRTF
 - IRMF
 - BMF/BRTF
 - NM Taxation and Revenue Department (TRD)
 - GenTax (PIT, CRS- gross receipts, withholding, and compensation taxes)
 - MVD (Driver License, Vehicle Registration)



Data Sources (cont.)

- Future
 - Department of Labor (DOL)
 - Employer and Employee data
 - Regulation and Licensing Department (RLD)
 - Licensee data
 - State Employees
 - State Vendors
 - Public Regulation Commission
 - Corporation data

NM “Audit” Types

- Field audit
 - 146 auditors & supervisors (165 after July)
 - Auditing 30 tax programs
- Desk audit
 - 7 auditors & supervisors (13 after July)
 - Projects, credit reviews, managed audits
- Compliance audit
 - 37 tax examiners & supervisors (42 after July)
 - Tape matches & compliance projects



Project Schedule (partial)

Project	Tax year	Start Date	Status
CP2000	2001	8/3/05	Completed
Schedule C	2002	10/28/05	Completed
CP2000	2002	3/29/06	Completed
IRMF NonFiler	2003	7/5/06	Completed
Audit Selection v.1	2003-2006	10/23/06	In progress
CP2000	2003	11/29/06	In progress
PIT Tape Match	2004	4/4/07	In progress
Prior Period Review	2002-2003	7/07	Testing
Schedule C	2005	8/07	Planned
Audit Selection v.2	2004-2006	8/07	Planned
CP2000	2004	9/07	Planned
PIT Tape Match	2005	9/07	Planned

Data Warehouse Goals

- To add data sources as soon as received
- Be up-to-date on tape match projects (process as soon as practical), so less P&I for taxpayers

“Compliance efforts and revenue generation by the Audit and Compliance Division has greatly increased over the past year and a half. Increased activity is due in great part to the implementation of a Data Warehouse and related software that systematically generates notices, moves accounts through a staging process from initial contact to closure or assessment and tracks activity through comprehensive reports.”

Tape Matches

- Prior to August 2005, all projects were done manually using Excel and Access
- **CP2000** under-reporter project identifies taxpayers who failed to report all their income to IRS and did not file or amend their personal income tax (PIT) return with New Mexico
- Federal **Schedule C** filed by sole proprietors, compares gross receipts to those reported to TRD to identify potential non-filers and under-reporters



Tape Matches (cont.)

- New project to NM uses **IRMF** data (W-2, 1099, ... income source information) received from the IRS to identify taxpayers that have not filed NM personal income tax (PIT) return
- **PIT Tape Match** project uses IRS 1040 data to identify taxpayers who have not filed a NM PIT return or underreported their PIT income
- Most projects require multiple batches – too many taxpayers for staff to handle at once

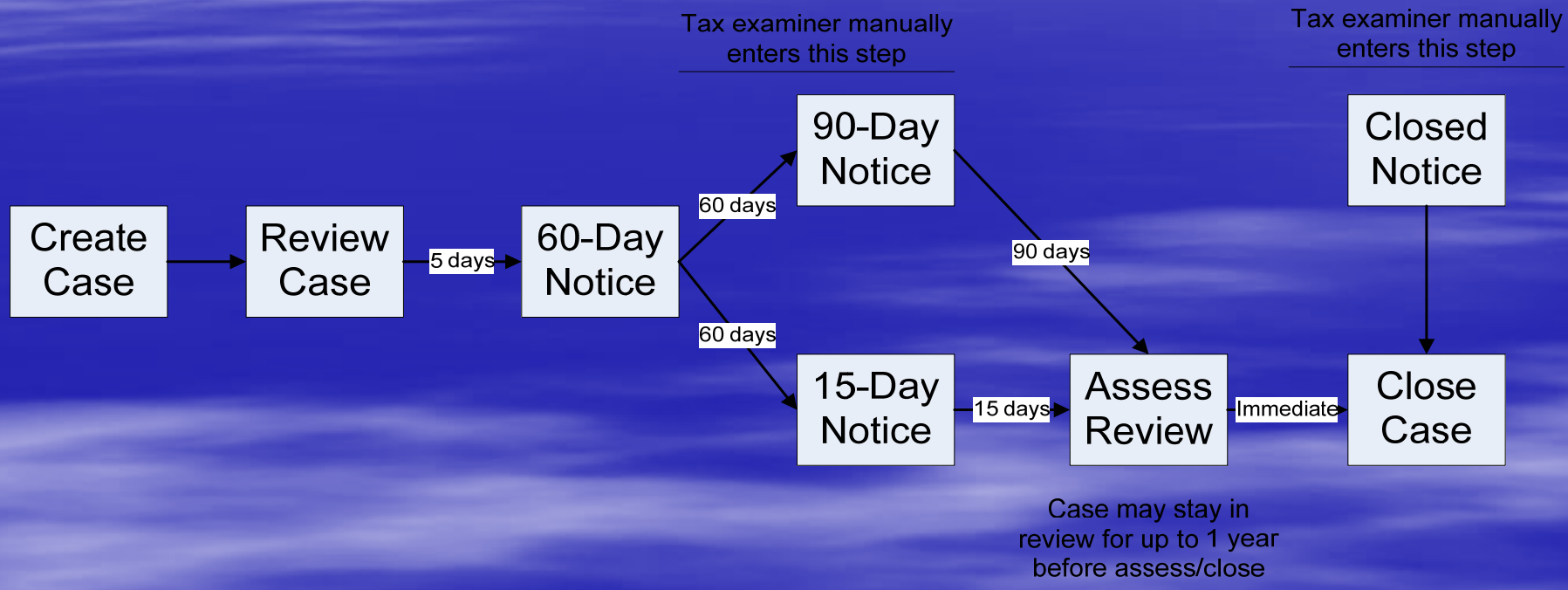


DW Tape Match Revenues

	CP2000	Schedule C	PIT Tape Match	IRMF	Total
# Initial Notices	13,218	4,640	4,100	5,840	27,798
Amount Assessed	\$12M	\$13.5M	\$277K	\$15.4M	\$41.2M
Amount Recovered	\$6.6M	\$2.8M	\$201K	\$1.1M	\$10.7M

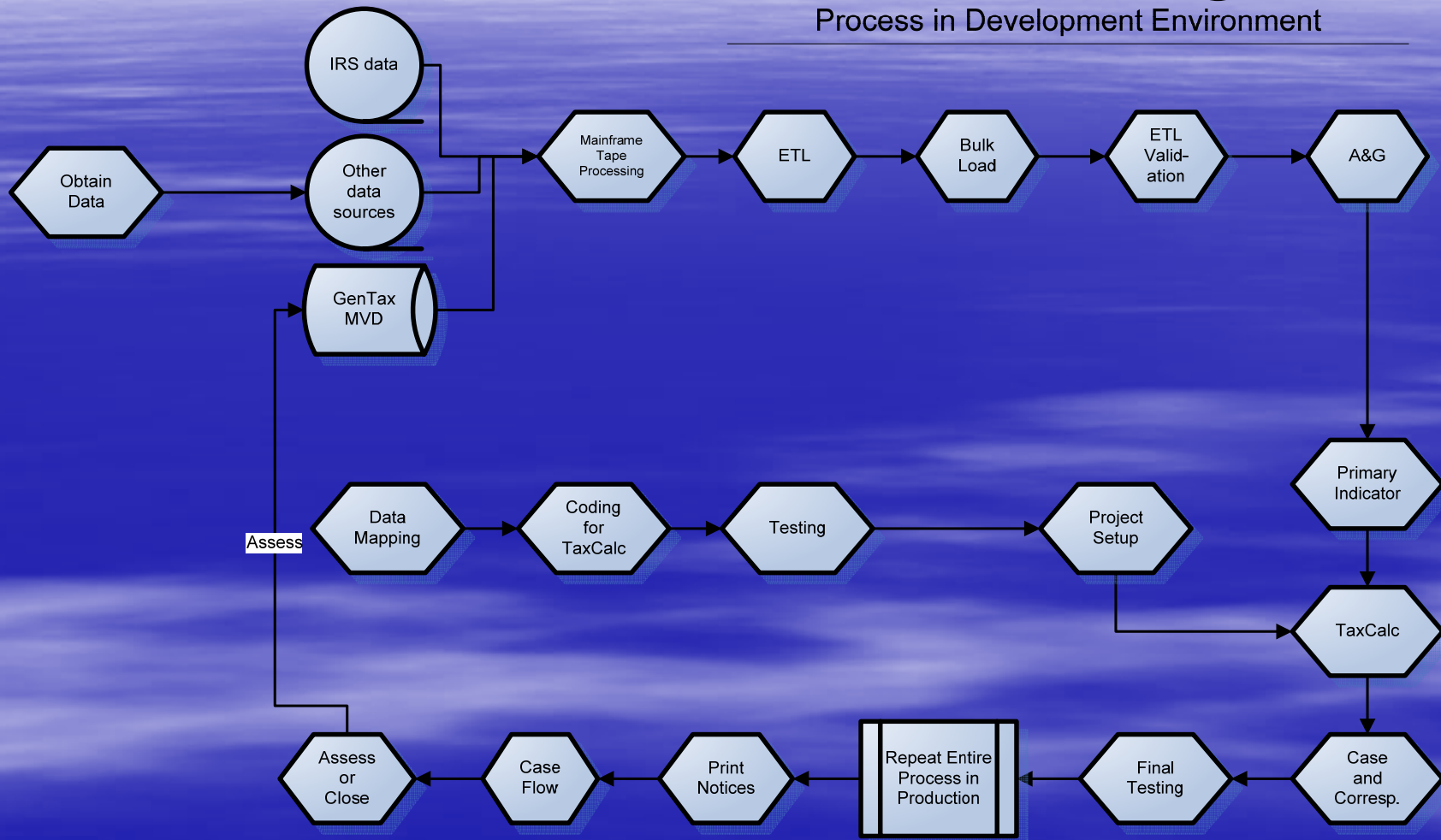
As of 5/25/07

Typical Case Flow



Tape Match Processing

Process in Development Environment



Process in Production Environment



Audit Selection Vision

- Historically, audit selection has been every auditor having their own combination of styles and processes.
- Goal is to provide more systematic approach to bring taxpayers that fall into the 'tax gap' into compliance.
- Challenge is to identify companies that have reporting responsibilities but are 'under the radar' of compliance.
- As additional data sources of information are added, our ability to locate taxpayers in the 'tax gap' will increase.

Audit Selection

- **Standard Deviation Selection Campaign**
 - Based on deductions taken
 - Average deduction percentage calculated for each industry
 - Each taxpayer compared to average for their industry
 - If more than predetermined standard deviations from norm, they were identified as a possible audit prospect.
- **Zero Gross Receipts Selection Campaign**
 - Filed Withholding Tax with TRD, but no Gross Receipts Tax
 - 40,000 businesses analyzed based on scoring criteria developed by audit staff
 - 1,500 determined to be potential audit candidates
- **Results of audits not available yet**



Audit Selection (cont.)

- Future Plans
 - Continue running these campaigns
 - Matches against DOL data
 - Matches against RLD data
 - Matches against IRS data for 1120S (Subchapter S corporations)
 - Matches against K-1 data whose shareholders are not filing Personal Income Tax returns (partnerships and sub S corporations)

Lessons Learned

- **IT involvement needed throughout**
 - Data warehouses require significant IT involvement in loading data, preparing projects, developing queries, customizing for state-specific requirements, etc.
- **Staffing & hardware requirements critical**
 - Look for staff with “right skill sets”
 - Purchase powerful hardware to speed up processing to avoid bottlenecks and delays
 - Need at least production and development environments
- **Document business rules**
 - Avoid confusion on business needs; code from clear requirements
 - Maintains knowledge through staff transitions, new staff training

Lessons Learned (cont.)

- Need for adequate testing
 - Find errors before sending notices to taxpayers
 - Avoids closing cases, and wasted staff & taxpayer efforts
- Incremental refinement of processes
 - Change based on lessons learned, department needs
- Data issues/cleanup
 - There WILL be data issues
 - Clean up data as practical, exclude where not

Summary

- Users are generally happy with DW
- Over \$41.2M assessed and \$10.7M recovered through DW to date
- 7 projects completed/active
- Aggressive schedule planned for additional projects
- DW improves compliance efforts: more cases and better knowledge/tracking, leading to increased revenues



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