



# Fraud Detection: What You Don't Know Can Cost You

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- Introduction
- Fraud Impact
- Techniques and State Risk Attributes
- Enforcement Programs
- Fraud Detection
  - E-filing
  - Cross-Matching
- Q&A

- Presenter
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- Background
  - 20 plus years in tax, enterprise software, and global services
  - Certified Platinum SAP Consultant
  - Custom development of pricing and tax solutions for upstream and downstream O&G



# Zytax Introduction

Zytax is the industry- and government-agency standard for automating the **Calculation, Compliance, and Collection** of indirect taxes.

- 14-year old company with 700+ installed customers including NC, NH, SC, and TN
- Over \$65 billion of taxes processed annually
- Headquartered in Houston, Texas
- Wholly-owned subsidiary of FuelQuest, a leading edge technology and services provider for companies that buy, sell, and distribute energy-related products



# Impact of Fuel Tax Fraud

\$3B

Estimate of annual combined  
federal and state fuel tax evasion  
losses

FHWA

21%

Percentage of state fuel tax  
revenues lost from evasion

Mingo Associates study

In addition to loss of federal and state revenues, fuel tax fraud damages:

Transportation  
Infrastructure

- Reduced new construction and maintenance

Business

- Loss of business from unfair competition

Consumers &  
Environment

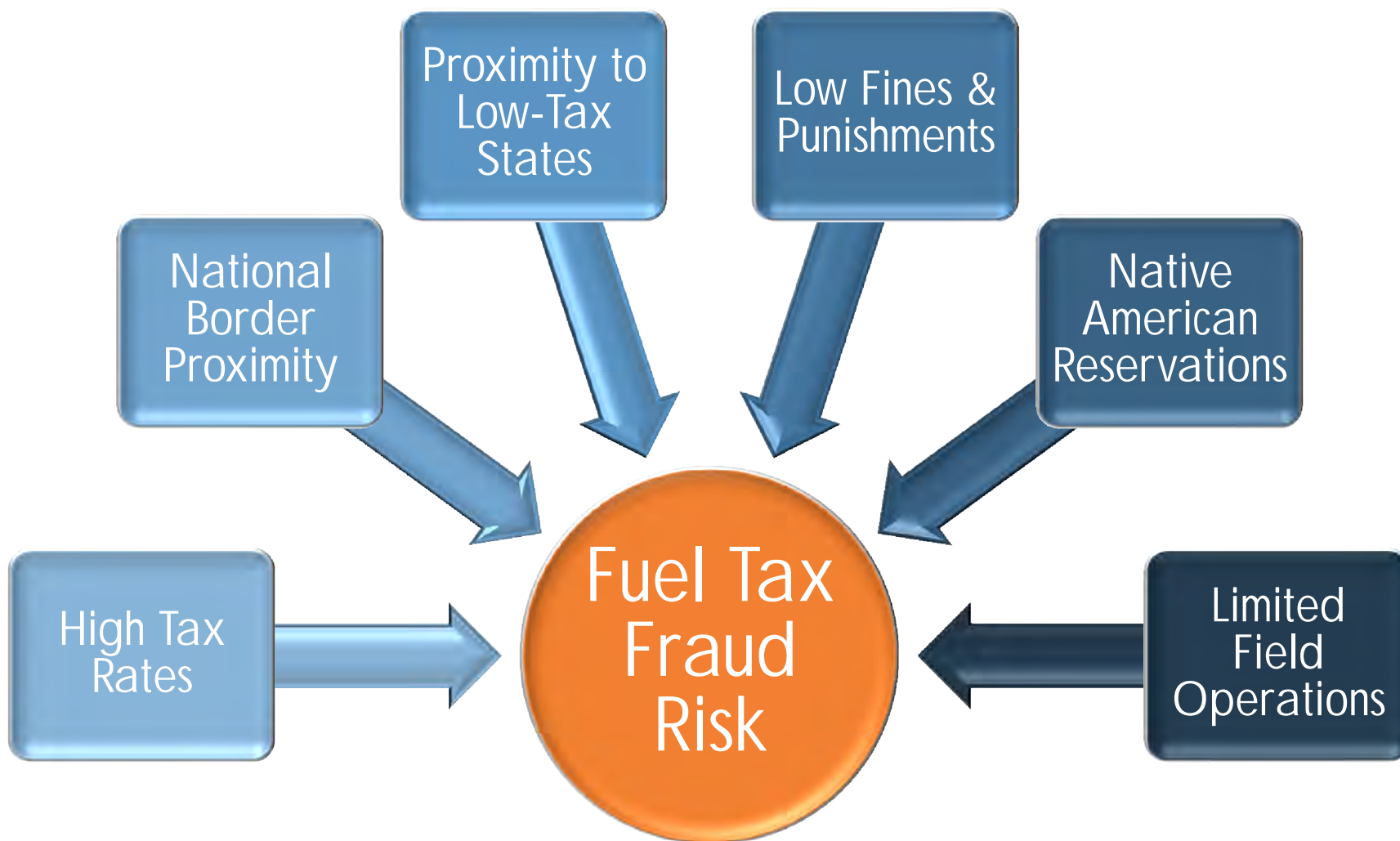
- Increased pollution, engine damage & vehicle breakdown

# Fuel Tax Fraud Techniques

- ❑ Daisy chains
- ❑ Non-filing schemes
- ❑ Imports & exports
- ❑ Dyed diesel & kerosene
- ❑ Blending schemes
- ❑ Bulk systems removal
- ❑ False labeling
- ❑ Refunds & credits



# You Might Have a Problem If...



# Enforcement Programs Work

“Enforcement activities directly contribute hundreds of millions of dollars to the Highway Trust Fund (HTF) and State transportation funds, a yield estimated at \$10 to \$20 per dollar spent on these programs.”



U.S. Department of Transportation  
**Federal Highway Administration**

<http://www.fhwa.dot.gov/policy/summ.htm>

# Enforcement Program Goals

- Collect all revenue due
- Implement efficient and cost-effective processes
- Create minimal drag on commerce
- Help filers be compliant
- High visibility of penalties and detected defrauders
- Ensure total fuel accountability via transactional transparency



# Enforcement Program Elements



- Point of tax collection
- Penalties and fines
- Motor fuel tracking
- Enforcement levels
- Audit & inspection
- Electronic filing

E-filing is a key enabler for enforcement and detection efforts

- ❑ Reduces filer errors
- ❑ Reduces processing errors
- ❑ Enables cross-matching transaction data
- ❑ Enables automated detection



# Complexity Is Also an Opportunity

Multi-jurisdictional transactions

Multi-company transactions

Multiple product types

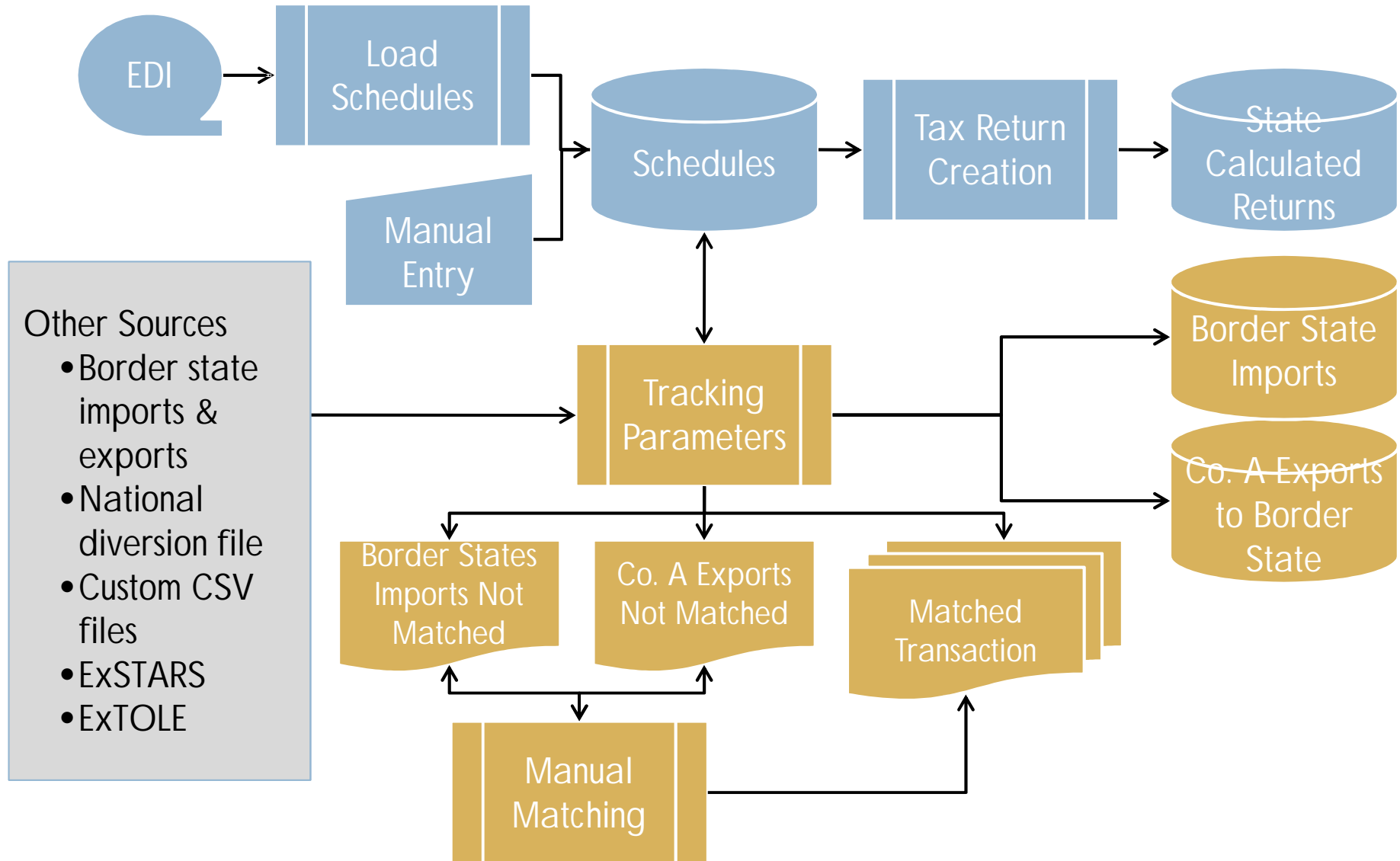
Multiple systems of record

Changing regulations

Exceptions & exemptions

- Complexity of transactions makes detection difficult
- Complexity also makes full cover up difficult. Can require multi-party conspiracy
- Opportunity to detect fraud if you're able to examine and cross-reference transaction from multiple positions in the process

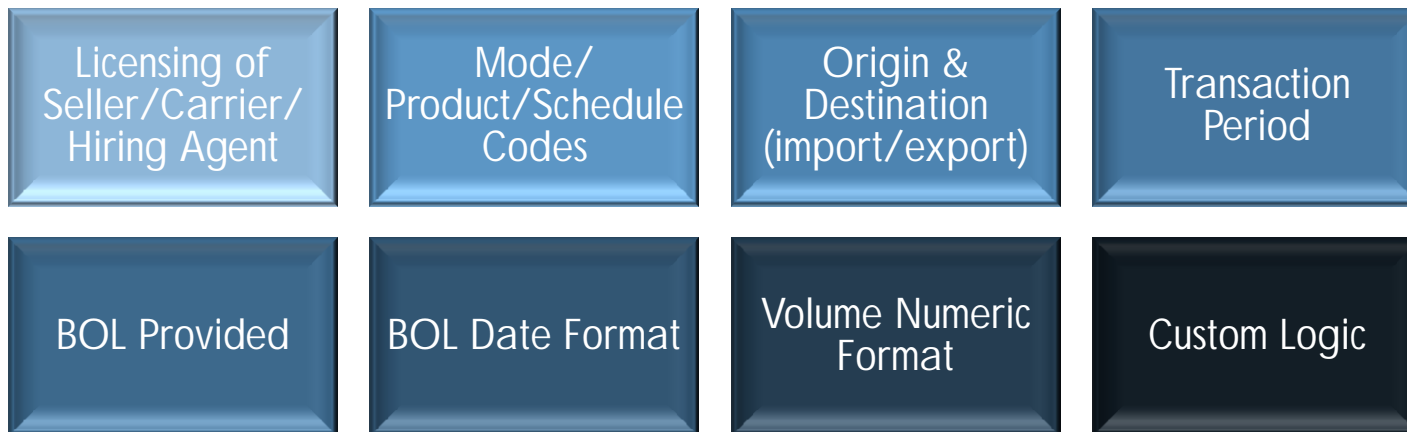
# Cross-Matching Process Flow



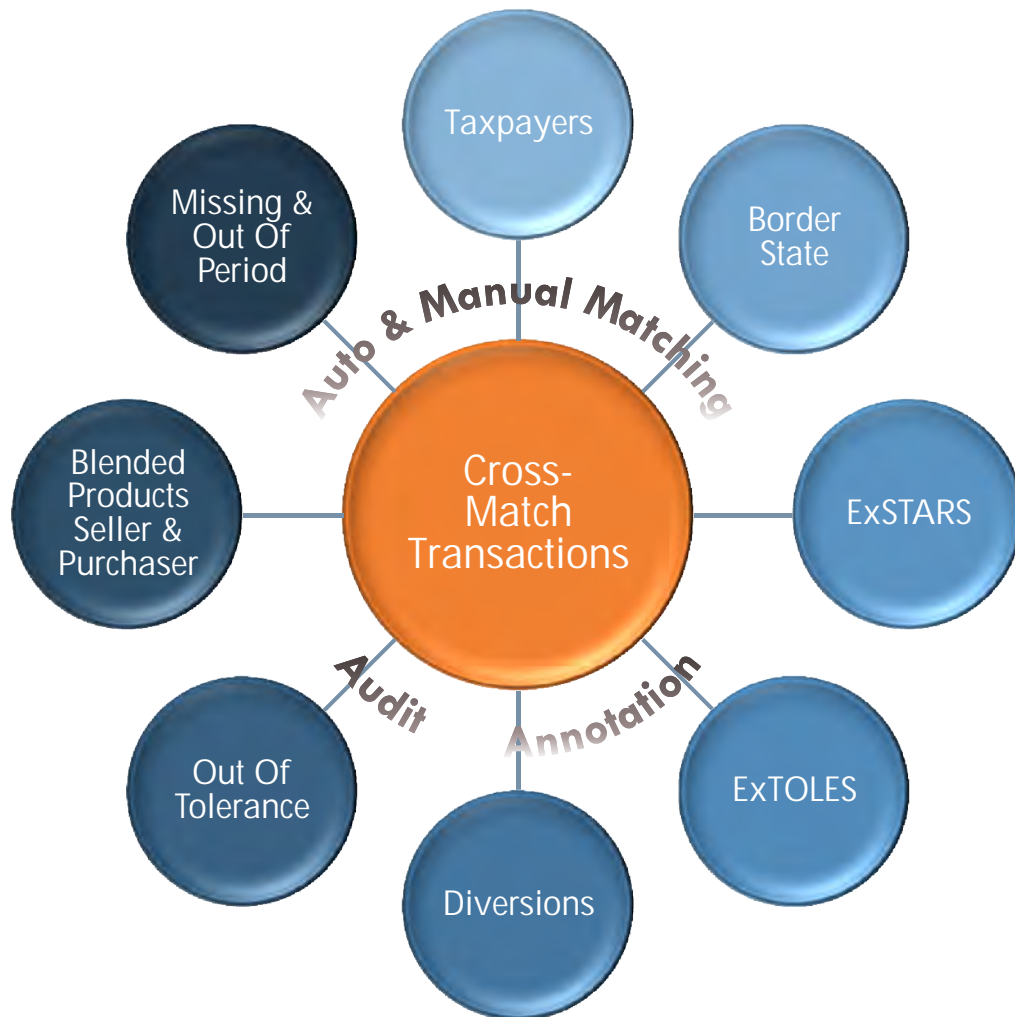
# Transaction Validation



## Critical Validation Checks



# Cross-Matching Transactions



**Cross-matching**  
Correlating information from related transactions, culled from potentially disparate processes and systems, to identify inconsistencies

# Benefits of Automation & Cross-Matching

- Maximize filer compliance
- Increase revenue in the range of 6 – 10%
  - e.g., One state reported sustained annual revenue increases of over \$30MM
  - We have observed similar results
  - Typical ROI exceeding 300%
- Highlight potential tax evasion and enable a robust audit process
- Improve reporting efficiency and reduce paper storage needs
- Increase audit productivity by reducing manual data gathering



- Fuel tax fraud is big dollar enterprise that impacts the state, public infrastructure, business, and citizens
- In detecting fraud, complexity can be your worst enemy or your best friend
- Tax enforcement programs are effective and revenue-enhancing



Thank You  
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