



## Virginia Department of Taxation

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# Refund Review Program

June 8, 2010

Presented by  
Linda Foster, Deputy Commissioner  
Virginia Department of Taxation



## Prior to Current Program

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- **Limited Selection Criteria**
- **No Tracking or Monitoring**
- **No Case Management System**





## Background

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- **Started Design in Late 2005**
- **More Robust and Functional System**
- **January 2007: Refund System in Production**



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## Refund Review Overview

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- **Easy to Modify**
- **Expanded Scope**
- **Multiple Models To Select Candidates**
- **Utilize All Available Data**
- **Enhanced Reporting**
- **Specialized Case Management System**

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## Flexibility



- **Interface with Individual Payables**
- **Model is a Set of Criteria**
- **Combine Criteria to Create Model**
- **About 2 to 4 Workdays to Test & Modify**

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## Expanded Scope

- **Fraud**
- **Overstated Deductions**
- **Schedule C Issues**
- **State Subtractions**
- **Preparers**
- **Military Spouse Exclusion**



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## Models

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- **Currently 28 Models**
- **Examples of Models**
  - Using Questionable Preparer
  - New Filer with No Known Virginia Connection
  - High Itemized Deductions
- **Use All Available Data Sources**

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## Types of Criteria

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- **Refund Amount**
- **Form Type – Resident, Non-Resident, Part-Year**
- **Filing Status**
- **Filing Information**
- **Withholding**
- **Filing History**
- **DMV Record**
- **Employment Commission Record**
- **Using Deceased SSN**



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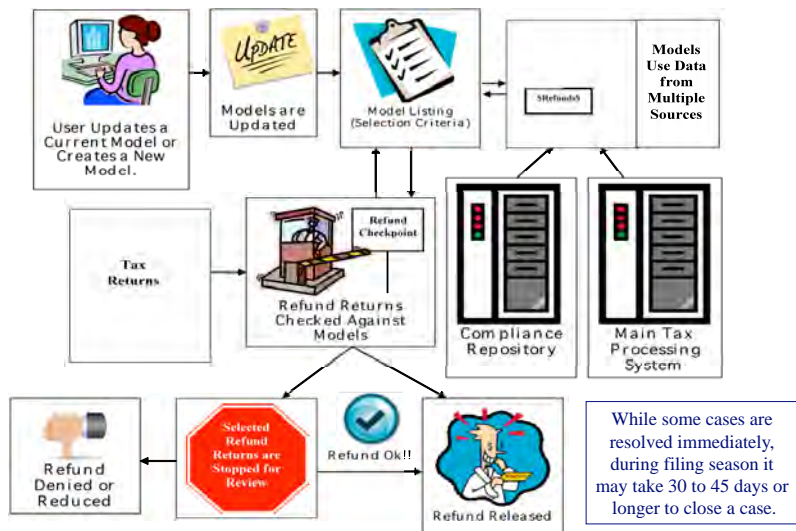
## Example of Fraud Model Criteria

- Resident Return
- Single
- Claiming Withholding
- No Prior Filing History
- No Estimated Payments
- No Prior Withholding
- No Information Returns to Virginia
- No DMV Record
- No Employment Commission Record
- Refund > Tolerance



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## Process Overview



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# Reporting



- Each Evening System E-mails Results by Model
- Cases on Worklist Table Until Resolved
- Cases also Placed in Access Table for Monitoring
- Revenue & Inventory Tracked by Model

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# Sample of System Report

Exhibit 1 - Partial Example of Daily Report from the Refund Review Application

From: RCFRFRF@tax.virginia.gov  
 Re: Staples, Don (246)  
 Cc:  
 Subject: ARPD - Refund Fraud Validation Model Report

\*\*\*\*\* VIRGINIA DEPARTMENT OF TAXATION \*\*\*\*\*

**Refund Fraud Validation Model Report**

No of Refunds Refund Amount	
Refunds Evaluated 37,677	\$18,181,843.67
Refunds Worklist 229	\$220,871.55
Refunds Approved 37,448	\$18,960,972.13

This is a sample of one of the reports e-mailed to users by the system each evening or early morning. This report shows that 229 refunds were stopped for review. It also provides a breakdown of the refunds stopped by model. Note, some of the descriptions and other information may be modified to ensure the integrity of the process.

Model Description	Model ID	Model Run Date	No of Recs Worklist	Total Amt Worklist	Model Run Duration per Customer
Bank Acct	MD2	01-26-2010 00:03:34 0	\$0.00	00:00:03	
Address Table	MD3	01-26-2010 00:03:34 1	\$4,016.54	00:00:04	
Preparer Table	MD4	01-26-2010 00:03:34 8	\$1,218.82	00:00:03	
Decreased - Single	MD22	01-26-2010 00:03:34 2	\$3,408.29	00:00:03	
Decreased	MD3	01-26-2010 00:03:34 0	\$0.00	00:00:02	
New Single Files 2	MD20	01-26-2010 00:03:34 8	\$9,660.00	00:00:13	
New Single Files	MD6	01-26-2010 00:03:34 62	\$41,575.34	00:00:09	
Single File with Return History	MD23	01-26-2010 00:03:34 19	\$25,654.28	00:00:13	
Prior Yr. Single Files	MD7	01-26-2010 00:03:34 0	\$0.00	00:00:03	
Other Single Files with Large Refund	MD8	01-26-2010 00:03:34 0	\$0.00	00:00:01	
Non Single Returns	MD9	01-26-2010 00:03:34 0	\$0.00	00:00:01	
Fed Schedule C Less	MD16	01-26-2010 00:03:34 0	\$0.00	00:00:02	
Fed Schedule C Less 2	MD19	01-26-2010 00:03:34 0	\$0.00	00:00:01	
Large Itemized Deductions	MD15	01-26-2010 00:03:34 8	\$20,525.16	00:01:29	
High Ratio Returns	MD10	01-26-2010 00:03:34 0	\$0.00	00:00:01	
ELF on file	MD11	01-26-2010 00:03:34 0	\$0.00	00:00:01	
Excess Military Subtraction	MD14	01-26-2010 00:03:34 121	\$112,813.12	00:00:02	
Non Resident 760	MD12	01-26-2010 00:03:34 0	\$0.00	00:00:01	



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## Case Management

- **Developed Application In-house**
- **Provides Information from Multiple Sources**
- **Information Spans Multiple Years**
- **Example of Information**
  - State and Federal Return Data
  - Information Returns
  - DMV
  - Employment Commission Information
- **Supplement with Westlaw's PeopleMap**



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## Case Management Screen

Exhibit 2 - Main Screen - Contains Case Overview

**Virginia Department of Taxation - RAP Refund Validation**

Fraud Date:  Model ID:   
External ID:  Primary SSN:  Tax Year:   
Tax Code:  Secondary SSN:  Refund Amount:

Main Refund Fraud | VA Tax Returns | IRMF | IMF 1040 | IMF Sch. A | IMF Sch. C | Military | ITIN | Wh Fm Paper | Misc. Info.

TP Name:  Address:   
Executor:   
Bank Account:   
Routing Num:

Case Owner:  Assign Case Owner:  Case Reviewer:  Case Status:

Refund Amount Released:  Back End Audit:  Case Close Date:   
Tax Assessed:  False Return:  Letter Date:   
Interest Assessed:  Orig letter returned bad address:  Response By Date:   
Requested Documents:  Info Receive Date:

Comments:

The main screen provides the auditor an overview of the case including the model # (which is why the case was stopped) and status. From here the auditor can drill down to other screens.

Create Validation Cover Sheet | Log Mail | Current Users On This Database

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## Misc. Info Screen

Exhibit 2.2 – Other Information

**Virginia Department of Taxation - RAP Refund Validation**

Final Date:  Model ID:   
 External ID:  Primary SSN:  Tax Year:   
 Tax Code:  Secondary SSN:  Refund Amount:

Main Refund Fraud | VA Tax Returns | ISMF | IMF 1040 | IMF Sch. A | IMF Sch. C | Military | ITIN | Wh Frm Paper | Misc. Info

Data For ID:  Search

<p>VEC Most Current Info</p> <p>VEC Counts</p> <p>VEC Immediate Prior Info</p> <p>VEC Counts</p> <p>VEC Wages</p> <p>DMV License - Date Of Birth</p> <p>DMV License - Address</p> <p>DMV License - Issue Date</p> <p>DMV License - Expiration Date</p> <p>DMV License - Customer Update</p> <p>DMV Title - Total Number of Vehicles</p> <p>DMV Title - Total Sales Prices</p> <p>SSA File - Name</p> <p>SSA File - Date Of Birth</p> <p>SSA File - Date of Death</p>	<p>This screen contains motor vehicle and driver's license information, employment commission records, preparer data, and Social Security's death extract information.</p>	<p>MD4 - Preparer Create By</p> <p>MD4 - Preparer Number</p> <p>MD4 - Preparer Name</p> <p>MD4 - Preparer Addresses</p> <p>MD4 - Comments</p>	<p>This data is useful in verifying the taxpayer's identity, employment, etc.</p> <p>The preparer information can be used to identify additional audit leads.</p>
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## Managing Workload



- **Triage Cases Each Morning**
  - Can Release Some Refunds Quickly
- **Staffing – Filing Season**
  - 14 Team Leads & Auditors
  - Also Work Other Audit Programs
- **Overtime Required During Filing Season**
- **During Filing Season Takes on Average 30 to 45 Days to Resolve Case**
- **Rollback Function**
  - Modify Model and Send Cases Back Through
  - Reduces Inventory
  - Not Common



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## Some Numbers



- **Revenue Results**

- Between January 2007 & May 7, 2010
  - \$10.2 million in denied refunds
  - \$1.7 million in assessments
- FY 2009 Realized \$4.3 million in denied refunds & payments
- Current Filing Season (January 2010 to May 7, 2010)
  - \$1.2 million in denied refunds



- **Inventory**

- Stop 4.6 returns out of every 1,000 refund returns processed
- Current filing season – stopped 10,966 returns as of May 11, 2010
- About 40% of the returns stopped result in additional revenue

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## Summary



- **System Design Allows Refunds to be Evaluated by Multiple Criteria**
- **Easy to Expand and Modify Models**
- **Reports Monitor Inventory & Track Results by Model**
- **Case Management System Provides Auditor Immediate Access to All Available Information**
- **Saved Millions in False & Inflated Refunds**

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# QUESTIONS

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