



# Compliance Data Warehouse

New Mexico  
Taxation and Revenue Department  
WSATA – August 2007

# Agenda

- Data Warehouse (DW) Overview
- Current/Planned Status
- 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
- Eight 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	8	25+ within 2 yrs
IT Staff	5 (1 Mgr, 2 DBA's, 2 Appl Dev)	3 add'l in FY08
Dedicated User Staff	2 – Tape match 1 – Audit	Based on need
Storage Space on SAN (Production)	~6 TB	Includes capacity for 2 yrs of growth
Database	Oracle 10G	Oracle 10G
DW Software	RSI DiscoverTax, Embarcadero, Code1	Evaluating additional audit software
Environments	Production, Development, Test	Expansion of processing capability through additional/faster servers

# 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
  - 165 auditors & supervisors
  - Auditing 30 tax programs
- Desk audit
  - 13 auditors & supervisors
  - Projects, credit reviews, managed audits
- Compliance audit
  - 42 tax examiners & supervisors
  - Tape matches & compliance projects

# Tape Matches

- Previously did manual projects (w/ Excel and Access)
- **CP2000** under-reporter project
- Federal **Schedule C** filed by sole proprietors, compares gross receipts to those reported to TRD to identify potential non-filers and under-reporters
- 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



# 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	8/27/07	In progress
Schedule C	2005	10/07	Planned
CP2000	2004	10/07	Planned
Audit Selection v.2	2004-2006	TBD/07	Planned
PIT Tape Match	2005	TBD/07	Planned

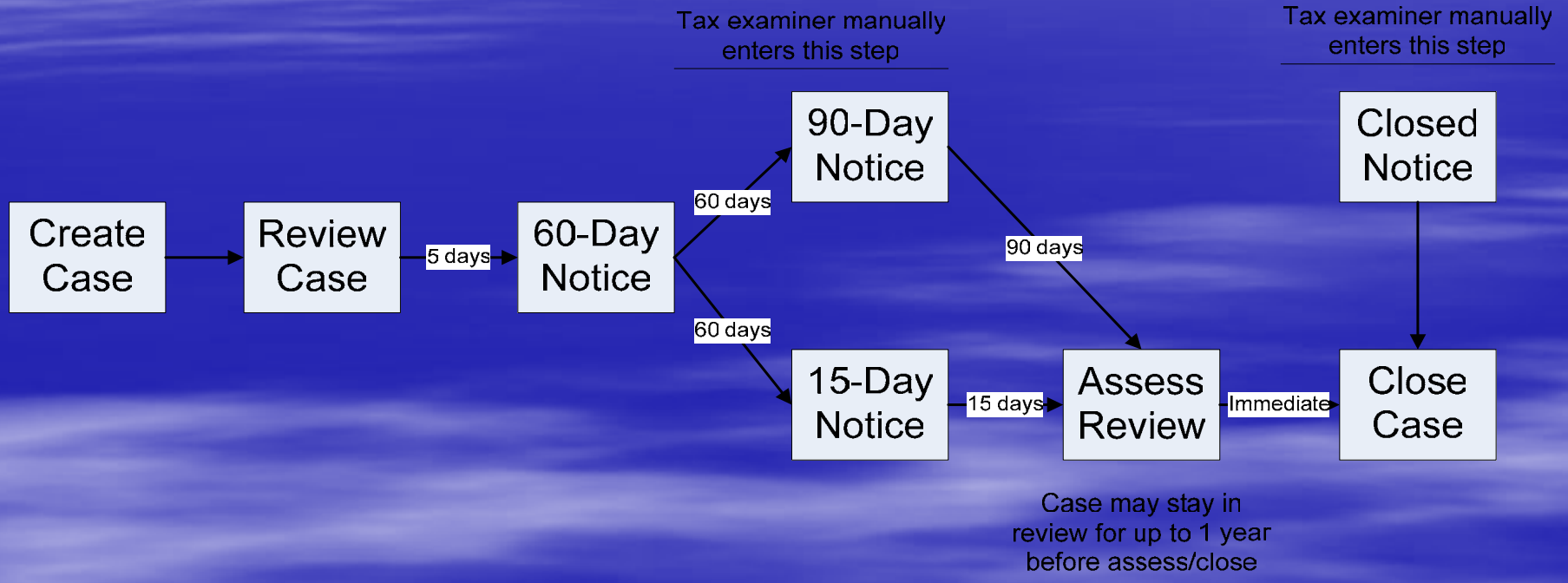


# DW Tape Match Revenues

	CP2000	Schedule C	PIT Tape Match	IRMF	Total
<b># Initial Notices</b>	13,218	4,640	6,498	5,840	<b>30,196</b>
<b>Amount Assessed</b>	\$13.2M	\$13.2M	\$3.3M	\$16.3M	<b>\$46.1M</b>
<b>Amount Recovered</b>	\$7.4M	\$3.1M	\$745K	\$1.6M	<b>\$12.9M</b>

As of 8/31/07

# Typical Case Flow



# Audit Selection Vision

- Historically, auditors selected audits based on their own style and processes.
- Goals for the warehouse are to:
  - Select all audits which will provide all business sectors with an equal chance of being selected for audit.
  - Provide a more systematic approach to bring taxpayers that fall in the ‘tax gap’ into compliance.
  - Allowing the warehouse to select audits will allow auditors to spend more time auditing instead of prospecting for audits.
- 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
  - 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
  - Formalize testing methodologies
- 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

- DW technology has improved our processes
- Over \$46.1M assessed and \$12.9M recovered through DW to date
- 8 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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